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VOL. I



Ontario

Report of The Provincial-Municipal Grants Reform Committee


Volume I



Report of The Provincial-Municipal Grants Reform Committee

Volume I





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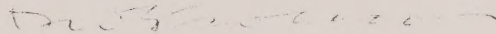
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TO HER HONOUR

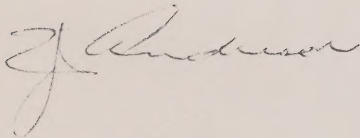
THE LIEUTENANT-GOVERNOR OF THE PROVINCE OF ONTARIO

MAY IT PLEASE YOUR HONOUR:

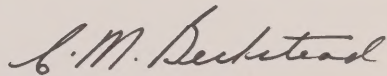
We, the members of the Provincial-Municipal Grants Reform Committee, appointed by Order-in-Council dated the 26th May, 1976, to review the present system of transfer payments made by the Government to municipalities and to study the possibilities and feasibility of altering in whole or in part the basis on which such payments are made, do herewith respectfully submit our report.



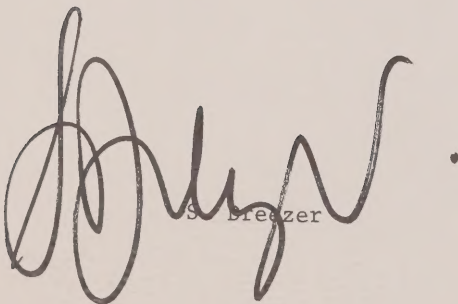
D.W. Stevenson
Chairman



W.J. Anderson

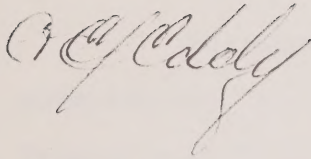


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S. Bretzer

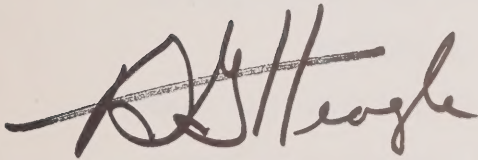
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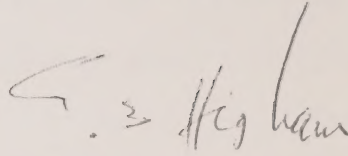
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W.T. Foster



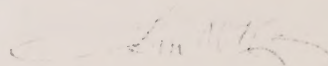
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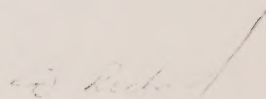
R.A. Loncke



T. McKay



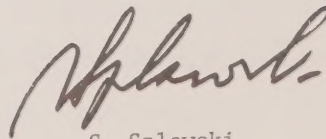
L.K. Pesando



D. Richmond



M.R. Sather



S. Splawski



Executive Council

O.C. 1561/76

Copy of an Order-in-Council approved by Her Honour the Lieutenant Governor, dated the 26th day of May, A.D. 1976.

The Committee of Council have had under consideration the report of the Honourable the Treasurer of Ontario and Minister of Economics and Intergovernmental Affairs, wherein he states that,

WHEREAS it is deemed desirable to ensure that transfer payments to local governments and local authorities be made on a sound, equitable and efficient basis:

The Honourable the Treasurer of Ontario and Minister of Economics and Intergovernmental Affairs therefore recommends:

1. THAT a Committee to be known as the Provincial-Municipal Grants Reform Committee be established to review the present system of transfer payments made by the Government to "municipalities", as defined in The Municipal Affairs Act, and including Regional Municipalities as defined in The Ontario Unconditional Grants Act, 1975, and to study the possibilities and feasibility of altering in whole or in part the basis on which such payments are made.

2. AND THAT the following persons be appointed members of the Committee:

D.W. Stevenson, Metropolitan Toronto
D.G. Heagle, Metropolitan Toronto
Mrs. L.K. Pasando, Metropolitan Toronto
G.E. Higham, Metropolitan Toronto
W.B. Nichols, Metropolitan Toronto
J.W. Giles, Metropolitan Toronto
L.R. Eadie, Metropolitan Toronto
M.C. Beckstead, Township of Nepean
R.E. Eddy, Count of Middlesex
R.A. Loncke, Township of Norfolk
T. McKay, Regional Municipality of Niagara
D. Richmond, Metropolitan Toronto
M.R. Sather, City of Guelph
S. Splawski, City of Thunder Bay
W. Anderson, Regional Municipality of Peel

and that D.W. Stevenson, Metropolitan Toronto, be designated Chairman of the Committee and H.M. Ploeger, Metropolitan Toronto, be appointed Executive Secretary and Director of Research to the Committee.

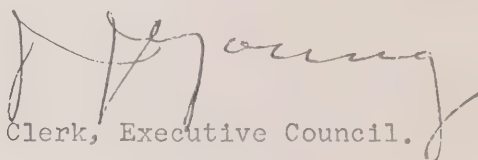
3. AND THAT the Committee receive submissions from municipalities, organizations and persons with respect to reforming the present system of Provincial transfer payments and that the Committee make recommendations on the reform of the said system to Cabinet by October 31, 1976.

4. AND THAT the Committee in carrying out the study make use, where appropriate, of the services and facilities of any ministry, board, commission or agency of the Government of Ontario.

5. AND THAT all members of the Committee be reimbursed for actual expenses incurred, these to include accommodation, meals and transportation in respect of meetings and other related business of the Committee, provided that any additional expenses incurred by the Committee for administrative purposes shall be subject to the approval of Management Board of Cabinet.

The Committee of Council concur in the recommendation of the Honourable the Treasurer of Ontario and Minister of Economics and Intergovernmental Affairs and advise that the same be acted on.

Certified,


Clerk, Executive Council.

FOREWORD

In 1977-78, the Province of Ontario will transfer over \$1.5 billion to its local governments and agencies, excluding school boards - nearly 12 per cent of its total budgetary expenditures. These funds will be distributed through, depending on classification, almost 90 different grant programs, with at least as many separate formulae for calculating entitlements.

As our report documents, a system of grants of such magnitude and complexity has given rise to pressures for basic reforms in the grant structure emanating from outside commissions, municipal organizations and within the Provincial Government itself. In response to these pressures the Government announced the establishment of the Provincial-Municipal Grants Reform Committee in the 1976 Ontario Budget. The Committee was made up of 15 members - 8 senior municipal officials and 7 senior public servants from the Provincial ministries with responsibility for most of the major grant programs.

The Order-in-Council establishing the Committee authorized it "to review the present system of transfer payments made by the Government to municipalities and to study the possibilities and feasibility of altering in whole or in part the basis on which such payments are made (in order) to ensure that transfer payments to local governments and local authorities be made on a sound,

equitable, and efficient basis".

The terms of reference of the Committee did not include grants to school boards, questions regarding the adequacy of the aggregate amount of transfers to the municipalities, nor the adequacy of the municipal tax base. The Committee soon discovered that the municipal grant structure alone was sufficiently complex to provide it with a major challenge.

The Committee approached its work in various stages:

- (a) Initially, we familiarized ourselves with the existing grant structure through a series of presentations and discussions with representatives of ministries administering grants. Much of this detailed factual information has been brought together in the Appendix to this report. We also made an early decision not to hold public hearings. We obtained as much information on a comparable basis as we could concerning the grant structures and policies in other provinces. This has been summarized in the Appendix, which we believe contains the most complete compendium of information ever put together on provincial-municipal grants across the country.
- (b) Secondly, we discussed a series of general principles by which the Committee should be guided in its review of

specific grants as well as a series of broad alternative strategies for reforming the system. These are set out in Chapter 3 of the Report.

- (c) Thirdly, we undertook an intensive review of alternative approaches to reforming specific grant programs. We reviewed each grant in terms of its original purpose, its characteristics as a stimulative or mature grant, the degree to which its purposes have been achieved or not, its effectiveness in meeting objectives, the problems of administration from the point of view of both the municipalities and the Province, and alternative approaches to reform.
- (d) Finally, we held a series of meetings in the summer and autumn of 1977 to review chapters drafted on the basis of the principles, information, and reviews that we had developed. These drafts were originally prepared by the Executive Secretary and his staff, often in conjunction with a sub-group of the Committee, normally consisting of the representative of the ministry responsible for the specific grant in question, and one or two of the municipal members.

The tone of the discussion in the Committee was influenced from time to time by outside developments. For instance, on the

federal-provincial front, the shared-cost programs in medical care and hospital insurance as well as the post-secondary education financing arrangement, were terminated on March 31st, 1977 and replaced by a system of tax transfers and unconditional grants. At the time of completion of the Report discussions were underway between the federal government and the provinces regarding the possible replacement of The Canada Assistance Plan by more unconditional transfer arrangements for social services. The general restraint in expenditures at all levels of the public sector in 1976 and 1977 resulted in questions being raised about the contribution of conditional grant programs to past increases in government expenditures and led to some pressure for the Government to place less reliance on conditional grants to municipalities.

As a result of its work since the summer of 1976, the Committee has come to a number of conclusions regarding an overall approach to reform of the grant structure, as set out in Chapter 3. In arriving at these conclusions the Committee tried to reconcile the desirability of greater autonomy for municipalities with some assurance, that where municipal activities affect more than a single municipality and where some degree of common standards across the province are desirable, the grant system enhances rather than hinders an effective and accountable public administration.

The members of the Committee, of course, are all public servants and as such were in a somewhat difficult situation when it came to their attitude to particular recommendations. Some of the recommendations may differ from positions taken by municipal associations, individual municipalities or Government ministries with which members are associated.

All members of the Committee did not necessarily agree with every recommendation in the Report. In some instances, members were in sufficient disagreement with individual recommendations that the submission of dissenting opinions was seriously considered. Since all the recommendations reflected majority opinion, the Committee decided not to accept individual specific dissents in its Report. Mr. Eadie subsequently decided to withdraw his signature from the Report.

The Committee has recognized the major impact that market value assessment and property tax reform will have on the Provincial-municipal financial relationship. We took the position that the most appropriate time for introducing major changes in the grant structure would be as soon as a reformed property tax structure based on market value assessment had been put in place. We do not offer our recommendations as a package which must be taken as a whole or ignored; rather we hope we have set forward for governments a wide range of recommendations which in whole or in part would bring about a significant improvement in the grants system.

As Chairman of the Committee, I should like to thank the members of the Committee who have put in long hours above and beyond their regular responsibilities to produce this report. I should also like to thank their ministries and municipalities who have made them available to participate in the Committee's work. In addition, I would like to extend my appreciation to Stephen Dreezer for taking over as the representative from the Ministry of Health after Bill Nichols assumed new responsibilities unrelated to the activities of the Committee, and to Bill Foster from the Ministry of Natural Resources for replacing Walter Giles who undertook new responsibilities for the Ministry of the Environment.

All of us on the Committee owe a great deal to Hendrik Ploeger, the Committee's Executive Secretary, who in addition to carrying out his regular duties as Director of the Intergovernmental Finance and Grants Policy Branch of the Ministry of Treasury, Economics and Intergovernmental Affairs, spent many hours with his staff writing drafts of the various chapters in the Report and putting together the Appendix. All of the staff of his Branch contributed to the work necessary to produce the Report but, in particular, I should like to mention Norman Manara and David Barnes, who have worked with the Committee since its inception.



D.W. Stevenson

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CHAPTER 1

GRANT REFORM IN HISTORICAL PERSPECTIVE

Introduction

The Provincial-municipal grants structure in Ontario today is a \$1.5 billion labyrinth. This is a relatively harsh judgement, but it is supported by the findings of the Provincial-Municipal Grants Reform Committee. The system and its problems will be described in detail in Chapter 2 of this Report. Here it is necessary to enquire into the evolution of the system and the recent efforts made for improvement.

It should be noted, at the outset, that the Committee had neither the mandate nor the resources to undertake a detailed historical study of the grants system in Ontario. Nevertheless, it was felt that a broad historical sketch was needed, especially for the benefit of those readers who are not already familiar with this important area of public policy.

The aims of this historical introduction are therefore twofold. The first is to bring into focus the forces that have created the present system, and hence, to identify the pressures and constraints that must be considered when designing workable reform options. The second is to remind us that the problem of grant reform is related to the larger problems of government

structure and finance within a federal system.

Evolution of the Grant Structure to 1968

It is a commonplace observation that, during the 1950's and 1960's, the social and economic structure of Ontario changed profoundly. Between 1950 and 1970, the population increased from 4½ to 7½ million. Urbanization proceeded rapidly; at the beginning of the period, 73.4 per cent of the population lived in urban areas, while at the end of the period the corresponding figure was 82.4 per cent. The age structure of the population also changed significantly. Economically, the period was characterized by accelerating industrialization and a rise in real incomes.

One important consequence of these developments was a change in the level of demand for public services. This is reflected in the fact that since 1950 the public sector share of the Gross Provincial Product in Ontario steadily increased, reaching 29 per cent in 1970. From the Committee's point of view, however, of greater significance was the change that occurred in the composition of public demand. Priorities began to shift from national defence and transportation to such people-oriented services as health, education and welfare, and to such community needs as roads, water and sewers.

The gradual shift in social priorities had profound implications for the structure and conduct of intergovernmental

relations. Most important, it led to a generalized problem of "fiscal imbalance" -- the situation where one level of government finds itself with high-growth revenue sources and lower growth expenditure responsibilities, while another finds itself in the opposite situation. As time went on, Provincial and local governments were called on to provide more and more services, but their revenue bases did not expand proportionately. The problem of fiscal imbalance in the Canadian federal system has been thoroughly studied. Despite the adjustments made from time to time among the three levels of government, fiscal imbalance remains an issue that has never been and perhaps never can be fully resolved.

A second implication was the blurring of jurisdictional boundaries. Many of the new services that were demanded fell into jurisdictional "grey areas". Cost-sharing arrangements were frequently devised to skirt the technical and financial problems of divided responsibility. The general result was an increasing "entanglement" in intergovernmental relations, with its attendant duplication, confusion, and loss of accountability.

A final implication of the growth and shift in public demand was an increasing concern over the geographical equity of the fiscal system, as reflected in demands for equalization and common standards of service. When the role of government was small, the redistributive effects of taxes and expenditures could

be largely ignored; when it became large--and when improved transportation and communications increased the awareness of disparities--this no longer held true.

The kind of pressures mentioned above were felt at both the federal-provincial and provincial-municipal levels. With regard to the former, the trend through the 1960's was to respond by "co-operative federalism". Sharing of the personal and corporate income tax fields was extended, a sophisticated equalization system was introduced, and major shared-cost programs were started in the areas of health, welfare, and post-secondary education. (The major shared-cost programs in health and post-secondary education were deconditionalized in 1977 and, at the time of this report, negotiations were under way to rationalize, if not deconditionalize, the sharing of social services.) These developments in the federal-provincial programs--such as tax-sharing--have frequently served as models to be emulated or avoided in the provincial-local realm. More important, they have sometimes drawn local governments into what are de facto, though not de jure, tri-level arrangements. The most noteworthy example of this is The Canada Assistance Plan, which involves the federal, Ontario and local governments in an approximate financial ratio of 5:3:2.

The same problems--fiscal imbalance, jurisdictional "grey areas", and regional inequality--produced a different response

at the Provincial-municipal level in Ontario. In general, the trend through the 1950's and 1960's was to greater centralization and control by the Province.

The increasing importance of the Province is demonstrated by the relative shift in expenditure loads. Not many people today realize that, at the turn of the century, the budget for the City of Toronto exceeded that of the Province, or that municipal spending in general was much higher than Provincial spending. In fact, Provincial own-account spending did not catch up to municipal own-account spending until World War II. Thereafter, until the middle 1960's, the two sectors grew more or less together. But by 1976, the Province's own-account budgetary spending was over twice that of the municipal sector, the figures being \$8.3 billion and \$3.9 billion, respectively. It is obvious, therefore, that very dramatic changes have taken place in the last decade.

A further indication of the centralizing trend is the history of road financing in Ontario. At the turn of the century there was virtually no Provincial spending on roads, all transportation spending occurring at the local level. The Province's initial involvement in road grants commenced in 1901 in a modest way; since then it has gradually stepped up its role in the transportation field. Today, it is estimated that Provincial road grants account for over 68 per cent of the total that is spent on this function. A similar pattern of centralization through the introduction of

shared-cost programs was evident in other expenditure areas. Readers who are interested in pursuing this theme are invited to start with the excellent historical review by J. Stefan Dupré, Intergovernmental Finance in Ontario: A Provincial-Local Perspective.¹

At the present time, there exists a contrast between the "co-operative federalism" at the federal-provincial level and increasing centralization at the Provincial-local level. From one point of view, the explanation lies simply in the time-pattern of demand; public demand did not shift decisively to the local level until the late 1960's and early 1970's, when such issues as local planning, environmental improvement, and urban transit became of paramount concern. More important, however, were the different constraints that existed on institutional and policy adaptation. A number of these can be mentioned here, without any pretense at being exhaustive.

First, unlike provinces, local governments and agencies are "created" by the immediately senior level of government, and this makes a world of difference from a legal and political point of view. The "centralization" of decision-making potentially encounters political opposition, but not against anything so formidable as a constitutional challenge.

1. J.S. Dupré, Intergovernmental Finance in Ontario: A Provincial-Local Perspective, A Study prepared for the Ontario Committee on Taxation (Toronto: Queen's Printer, 1967).

Second, the number of municipalities is much larger than the number of provinces, meaning that there is a more serious problem of policy co-ordination and control in any sharing or "delegation" type of arrangement. For example, tax sharing makes sense at the federal-provincial level; extended to the provincial-municipal level, it could lead to serious geographical distortions in economic and residential patterns. Moreover, there is no such thing as a "standard" recipient in the world of Provincial-local relations; Provincial grants are paid to a whole host of entities including Indian bands, non-profit organizations, and charitable institutions, as well as local governments, school boards, and various special-purpose bodies with varying degrees of independence.

Third, the differences in size, wealth and expertise are greater at the Provincial-municipal level. It is difficult enough to devise arrangements that are acceptable to both Ontario and Newfoundland; it is all the more difficult to devise sector-wide reforms that are acceptable to Metropolitan Toronto, the County of Haliburton, and the Township of Grattan.

Finally, the threat that federal-provincial cost sharing might be lost helped to restrict the kind of adjustments that could be made in the Ontario-local relationship. The important case of The Canada Assistance Plan has already been mentioned;

more will be said on this important point in a later chapter.

The Process of Reform

The process of reform of the Provincial-municipal relationship has been gradual but steady for the last decade. The Report of the Ontario Committee on Taxation (the Smith Committee) is normally cited as the beginning of this process, insofar as it made a number of trenchant observations on the Provincial-municipal structure, and a number of recommendations for change. Accepting some of these recommendations, the Government of Ontario in the 1969 Budget laid the framework for a long-term program of reform in the Provincial-municipal sector. The stated objective was "to provide a more equitable and viable financial basis for the development of Provincial and municipal operations in future years".

Conceptually, the first stage of reform was the extensive restructuring of municipal government. Between 1969 and 1976, eleven new regional and district municipalities were created, and a number of special-purpose bodies were abolished, amalgamated, or brought under the wing of local councils. Today, some two-thirds of the population of Ontario lives within regional and metropolitan government areas. The objectives of the restructuring were as follows: to enable better planning and more orderly development, to permit economies of scale in service delivery, to

lessen interjurisdictional externalities, and to create a more equitable distribution of local tax burdens through the pooling of resources. These aims have been realized to a large extent.

A second element in the reform strategy was to directly relieve the growing pressure on the property tax. Several moves can be cited in this connection. First, grants to municipalities and school boards were significantly enriched. In 1960-61, Provincial grants amounted to 28.7 per cent of total municipal expenditures, and in 1975-76 they were 45 per cent. Second, certain properties previously exempt from the property tax were declared taxable. And third, the Province assumed the local government responsibilities for the administration of justice and assessment. The latter stand as two key examples of how whole functions can be transferred from one level of government to another. The transfer of the administration of justice met the municipalities' aim of alleviating the property tax of the rapidly rising costs of this function, as well as the Province's aim of instituting a more uniform and improved system. The transfer of the assessment function likewise removed a burden from local governments, while at the same time ensuring greater uniformity in assessment practices. It also set the stage for the Province to undertake the massive task of uniform, market value re-assessment on a province-wide basis; this in itself is a prerequisite to enhancing the equity of local taxation and the Provincial-local grant system.

A third prong of the reform strategy was to improve the progressivity of the property tax system. This was achieved primarily through the introduction and refinement of the property tax credit. In 1976, the value of the property tax credit was equal to about 26 per cent of total residential property taxes raised, the bulk of the benefits accruing to low-income taxpayers. It should also be noted in passing that increasing the proportion of expenditures financed by Provincial grants indirectly improved the progressivity of the tax system by taking pressure off the property tax base and transferring it to the more progressive Provincial revenue structure. The aim here was to strengthen the property tax as a major revenue source to municipalities by enabling them to rely on this tax without worry about undue hardship.

Yet another aspect of the reform process was the simplification and deconditionalization of certain grant programs. In 1971, the complex library grants were greatly simplified followed, in 1973, by simplification of roads grants. Also in 1973, the warble fly and plant disease control programs were abolished. Other conditional programs eliminated more recently were: local planning activities, arena program managers, remedial works, municipalities unduly burdened by Children's Aid Society costs, municipal drainage, parks assistance, L.C.B.O. payments for enforcement of the Liquor Control and Liquor Licence Acts, weed control, and municipal pounds assistance. At first sight, this may appear as significant progress,

but in reality it amounted to only a beginning. Furthermore, the fact that two of the nine programs, deconditionalized by the 1974 Budget, were promptly reinstated, demonstrates that the process is not always a painless or easy one.

In the 1974 Budget, the Province announced its intention to consider a more ambitious deconditionalization program for 1975. Some 15 grant programs, valued at \$56 million in 1974, were selected for potential elimination. Of these, none have as yet been eliminated and some were actually enlarged, reaching a total value of \$90 million in 1977. Even the \$20,000 program in respect of clarification of boundaries of land parcels survived quite intact. One of the primary reasons for the abrupt halt to any further reforms along these lines was the concern expressed by library boards elicited by the inclusion of library grants in the deconditionalization list. Even though libraries already drew the lion's share of their financing from municipalities, they were not confident they would survive in reasonable health once totally dependent on municipalities. A second reason was the reluctance of individual ministries to see their grant programs disappear.

The final element in the overall reform strategy was to alter the mixture, within the total, of conditional and unconditional assistance. Deconditionalization aside, this was accomplished by modifying the growth of conditional grants, increasing the value

of the traditional per capita grants slightly, and by introducing major new unconditional programs--the General Support Grant, the Resource Equalization Grant, and the Northern Ontario Special Support Grant. As a result of this change in emphasis, unconditional grants rose from 13 per cent of total municipal grants in 1972 to 28 per cent in 1977. This major shift has been well received by the local sector.

This brief account of the process of reform would be incomplete without mention of the Edmonton Commitment, even though the Commitment as such is not within the Committee's terms of reference. In the 1974 Budget, the Government of Ontario made a three-part pledge to the local sector; it pledged to (1) "increase its transfers to local governments and agencies at the rate of growth of total Provincial revenue", (2) "pass on to local governments the full benefit of any net gains in new unconditional tax sharing by the federal government", and (3) "give municipalities access to funds generated by the Ontario Municipal Employees Retirement System to permit better use of credit capacity", Clause (1) of this commitment was an important, though double-edged sword. On the one hand, it placed a "floor" under the aggregate transfers to the local sector; combined with the Province's recent policy of disclosing its grants intentions prior to the commencement of the local fiscal year, the Commitment helps create an environment of "certainty" within which municipal budgeting can proceed more ration-

ally. On the other hand, the Commitment can also be a ceiling. When economic conditions produce a low Provincial revenue growth, the local sector is automatically enlisted in a restraint exercise; it is forced to roll with the punches, no less than the Province. This encourages municipalities to plan their expenditures with a view to general circumstances, rather than take Provincial assistance for granted.

The Building of a Reform Consensus

Despite all the developments mentioned above, the Committee feels that real progress in grants reform has been limited. The lack of more comprehensive reform is not for want of a general commitment on the part of the Ontario Government; the Province has repeatedly stressed its commitment to both grants reform and the encouragement of greater local autonomy.

At the first Provincial-Municipal Conference (1970), the then Minister of Municipal Affairs, the Honourable W. Darcy McKeough, said:

.....a prime objective of our policy in regard to municipalities is to put autonomy back into the hands of local elected officials. Unconditional grants are a main feature of that policy.²

And, as Treasurer, in his 1971 Budget Statement, he continued:

.....our aim is to eliminate many existing grants, reduce the number of Provincial and municipal civil servants occupied in processing grants and unconditionalize Provincial financial transfers to permit

2. The Honourable W. Darcy McKeough, "A Statement to the First Provincial-Municipal Conference" (Toronto, 1970), P. 11

greater budget autonomy for our local governments.³

In his Statement to the Legislature, on June 16, 1972, the Premier, the Honourable William G. Davis, said:

The Ontario Government clearly recognizes the need to rationalize its grants system. All our reform objectives are closely interrelated. Through the establishment of stronger, more viable local governments and the process of reassessment and related local tax reforms, we expect soon to reach the point where we will be able to enhance greatly the financial independence and responsiveness of local government in meeting the problems of modern communities. For the present, we are reviewing the grant structure in the expectation of introducing early improvements to it. In this review, we will be conscious of the need for greater efficiency in spending and delivery of services, for greater responsiveness to differing local requirements and priorities, and for overall restraint by the government sector.⁴

Similar statements of the Province's intentions are found in the various Budgets introducing the grant enrichments and reforms briefly noted in the preceding section of this chapter.

In the fall of 1975, The Report of the Special Program Review (the Henderson Report) was published. It condemned open-ended cost-sharing arrangements and expressed concern over grant rates in excess of 50 per cent. It also recommended substitution of unconditional assistance for existing conditional grant programs. Specifically, it recommended that:

the Province immediately review its conditional grant programs with a view to avoiding commitments to new, open-ended, and costly undertakings, particularly in those areas of support where the Provincial share exceeds 50 per cent;⁵

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3. The Honourable W. Darcy McKeough, Ontario Budget 1971 (Toronto, Department of Treasury and Economics), P. 16
 4. The Honourable William G. Davis, "Design for Development, Phase III," A Statement to the Legislature of Ontario (Toronto: Queen's Printer, 1972), P. 6
 5. The Honourable W. Darcy McKeough, The Report of the Special Program Review (Toronto, The Management Board of Cabinet, 1975), P.225

and

the Province substitute unconditional assistance for existing open-ended conditional grant programs.⁶

The Report continued:

This proposal is consistent with preserving local autonomy, placing responsibility and accountability for spending decisions where they should be.....⁷

The 1976 Budget incorporated some of the Henderson Committee recommendations: for instance, more stringent limits were applied to the open-ended programs.

The municipal sector has long been cognizant of the problems of the present grant structure. As a Special Committee of the Executive of the Association of Counties and Regions observed in October 1971:

We remain appalled at the multiplicity, complexity and irrationality of the present conditional grant structure. We find no justification for the contradictory levels of conditional assistance nor the stringent conditions attached to such assistance.⁸

This same Committee made the critical observation that:

If we are truly desirous of achieving a more rational grant system it follows that the responsibility is on us to refrain from requesting the Province to do the very thing, which when enacted we are so prone to denounce. A more mature and responsible municipal attitude is an absolute prerequisite to a rationalization of the grant structure.⁹

The entire local sector has not always taken this advice seriously. Throughout the early and middle 1970's, individual

6. Ibid., P. 225

7. Ibid., P. 225

8. Special Committee of the Executive of the Association of Counties and Regions of Ontario, Position Paper No.1 on Municipal Fiscal Reform (Orillia: Association of Counties and Regions of Ontario, 1971), P. 16

9. Ibid., Pp. 12-13

municipalities repeatedly petitioned the Government for major enrichments of existing conditional grants and new conditional programs. The absence of greater follow-through by municipalities was lamented by the Treasurer, the Honourable W. Darcy McKeough, in his Statement to the Founding Convention of the Association of Municipalities of Ontario on June 19, 1972:

The Ontario Government clearly recognizes the need to rationalize its grants system. We are presently in the process of doing this. In passing, I would remind you that since March 1969, I have been asking you for suggestions as to which conditional grants may be eliminated. I have received none.....¹⁰

By 1976, however, the municipal sector was more vocal and unified on the need for substantial reforms. This was, at least in part, the result of the Province's restraint program which bit into conditional grants and forced a wider recognition of the drawbacks of conditional grant vehicles. The following excerpts from submissions by the local sector show this increasing vocal support for reform:

A.M.O. Position Paper on Provincial Transfers, January, 1976:

.....limitation in transfer payment growth is essential during the present economic situation (and) is acceptable to municipalities; however, such limitations in transfer payments should not inhibit the municipalities' autonomy in establishing service levels.¹¹

The Association also believes that transfer payments should be made increasingly unconditional. If autonomy at the local level is to be achieved, the deconditionalization of grants and consequent enrichment of unconditional grants should occur.¹²

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10. The Honourable W. Darcy McKeough, "Design for Development, Phase III", A Statement to the Founding Convention of the Association of Municipalities of Ontario (Toronto: Queen's Printer, 1972) P. 14.
 11. Association of Municipalities of Ontario, "Position Paper on Provincial Transfers" (Toronto: Association of Municipalities of Ontario, 1976), P.5
 12. Ibid., P.5

M.L.C. Submission, May 26, 1976:

the setting of priorities is distorted by the desire to take advantage of conditional programs. It is difficult to consider program priorities in an unbiased manner when the cost of these programs can be expressed as 100% dollars or 50% dollars or 20% dollars.¹³

A.M.O. Fiscal Policy Committee, June 1976:

As the elected representatives of a community charged specifically by the electorate to be responsible for the provision of municipal services, municipal elected officials, if they are to carry out their responsibility, must have a considerable degree of autonomy with regard to the priority decision-making process within their communities.¹⁴

The accountability of municipal representatives to the public is substantially reduced by the role of the province in providing financing for specific services. While full accountability will not be achieved until municipalities are in a position to directly tax for the majority of the services provided at that level, their present accountability can be improved substantially through the replacement of a large number of the existing specific grants and improvement of general purpose grant funding. In this way, there is less involvement by the province in corporate decision making at the municipal level and as a body responsible for its own decision making, city council becomes more attractive to those wishing to provide leadership in their communities.¹⁵

Because of the variety and complexity of the present grant programs, grants are often given to astute municipalities while small municipalities miss out due to a lack of knowledge or aggressiveness in claiming grants they are entitled to receive.¹⁶

In 1976, the municipal sector also formulated a detailed response to the observation by the Honourable W. Darcy McKeough, in his 1972 Budget Statement, that ".....there are far too many

13. Municipal Liaison Committee, "Submission to the Executive Council of the Province of Ontario (Toronto: Municipal Liaison Committee, 1976), P.11

14. Fiscal Policy Committee of the Association of Municipalities of Ontario, "Brief on Deconditionalization of Provincial Grants (Toronto: Association of Municipalities of Ontario, 1976), P.5

15. Ibid., P. 6

16. Ibid., P. 8

special-purpose boards and commissions. They obscure the accountability of councils and impede comprehensive priority setting".¹⁷ The Municipal Liaison Committee, in May 1976, observed that:

.....the conditional grants structure has contributed much to both the continued existence of these institutions (special purpose bodies) and that fragmented system of government in which municipalities function. Having received access to provincial funds, special purpose authorities are reluctant to have their operations integrated with those of the municipal council. Since conditional grants give recognition to the existence of the special purpose bodies they tend to identify strongly with the system as evidenced by the opposition to the proposal to deconditionalize library grants voiced by the library boards. Municipalities are, however, seriously constrained by the existence of these authorities as they compromise local priority determination, spread responsibility, reduce accountability and thwart public participation in community matters.¹⁸

As well as indicating some of the problems of the existing grant structure, these excerpts show that by 1976 both the Province and the municipal sector were firmly resolved about the need for some fairly dramatic reforms in the financial relations between the two levels of government. It was this growing consensus that led to the establishment of the Provincial-Municipal Grants Reform Committee, and the analyses and recommendations of subsequent chapters in this Report.

17. The Honourable W. Darcy McKeough, Ontario Budget 1972 (Toronto: Ministry of Treasury, Economics, and Intergovernmental Affairs, 1972), P. 16

18. Municipal Liaison Committee, op. cit., P. 9

CHAPTER 2

THE GRANTS SYSTEM TODAY: ITS STRUCTURE AND PROBLEMS

Introduction

In 1967, the Ontario Committee on Taxation reported that:

The situation with respect to provincial grants to local authorities is—and we choose our words carefully—chaotic. It is not even possible to enumerate¹ readily the grant programs currently in force.

Though numerous reforms have taken place in the interim, this description is as valid today as it was a full decade ago. As mentioned in the Foreword, it includes almost 90 different grant programs.

It is the purpose of this chapter to present an overview of the current grant structure and its inherent drawbacks.

The Structure of the Grants System

Since the introduction of the Edmonton Commitment, the Province has dedicated about 30 per cent of its total budgetary revenue to transfer payments to local governments. In any particular year, actual transfers may vary up and down from this target due to forecasting and accounting problems, but the Province has adhered to this target over a period of time. The total funds

1. The Ontario Committee on Taxation, Report, Vol. II (Toronto: Queen's Printer, 1967), P.410.

committed for 1977-78 amount to about \$3.4 billion, of which \$1.9 billion goes to school boards and \$1.5 billion goes to municipal governments and agencies. There is no established rule for the division of the aggregate between these two components. The Henderson Report recommended that "the new funds generated by the Edmonton Commitment each year be divided equally between school board support and all other forms of local financial assistance,"² but the Government rejected this proposal as "too restrictive" - it did not allow sufficient flexibility to respond to changing priorities.

Once the total to be allocated to municipal governments and agencies has been determined, a decision is made as to how much will be devoted to unconditional grants and how much to conditional grants. The priorities of individual programs then determine the funding levels for specific conditional programs. Since 1975, these funding levels have been communicated to the local sector well in advance of January 1 in order to facilitate local budgetary planning.

As indicated previously, there are approximately 90 separate grant programs. Many of these programs are highlighted

2. The Honourable W. Darcy McKeough, The Report of the Special Program Review (Toronto: Management Board of Cabinet, 1975), P.224.

in Appendix A to this Report, the most exhaustive and detailed descriptive analysis of the Province's grant programs ever undertaken. For the reader's benefit, the Committee has decided to present a simplified overview within the body of its Report. The following table indicates the range of grants and the great differences that exist in their relative financial magnitudes.

TRANSFER PAYMENTS TO LOCAL GOVERNMENT

<u>Transfers to Municipalities</u>	<u>Estimated 1977-78 (\$000)</u>	
<u>Ministry of Agriculture and Food</u>		
1. Drainage Act	7,000	
2. Flood Control	4,000	
3. Agricultural Drainage	<u>1,800</u>	
Sub-Total		12,800
<u>Ministry of Community and Social Services</u>		
4. General Welfare Assistance	120,682	
5. Supplementary Aid	4,601	
6. Special Assistance	4,718	
7. Municipal Welfare Administration	16,141	
8. G.W.A. Work Activity Projects	1,230	
9. Children's Aid Societies	82,776	
10. Day Nurseries - Capital	909	
11. Day Nurseries - Operating	32,002	
12. Homes for the Aged - Capital	1,336	
13. Homes for the Aged - Residential Support	11,253	
14. Homes for the Aged - Extended Care Support	73,978	
15. Homemakers' and Nurses' Services	7,764	
16. Elderly Persons' Centres	<u>294</u>	
Sub-Total		357,684
<u>Ministry of Consumer and Commercial Relations</u>		
17. Crown Contributions re Judge's Plans	<u>23</u>	

<u>Transfers to Municipalities (continued)</u>		Estimated 1977-78 (\$000)
<u>Ministry of Culture and Recreation</u>		
18. Community Recreation Centres		19,400
19. Local Museums - Capital		75
20. Local Museums - Operating		1,120
21. Public Libraries		22,000
22. Programs of Recreation		<u>2,400</u>
	Sub-Total	44,995
<u>Ministry of the Environment</u>		
23. Local Sewerage Inspection		1,786
24. Oversize Facilities in Restructured Areas		12,350
25. Assistance to Small Municipalities		2,900
26. Waste Recycling Experiment		400
27. Derelict Motor Vehicles		1,000
28. Termite Control		125
29. Assistance to Local Facilities*		<u>650</u>
	Sub-Total	19,211
<u>Ministry of Health</u>		
30. Local Ambulance Services		9,800
31. Outbreaks of Diseases		700
32. Venereal Disease Control		293
33. Local Health Units - Capital		240
34. Local Health Units - Home Care		12,200
35. Local Health Units - Operating		<u>47,412</u>
	Sub-Total	70,645

* The total value of assistance to water and sewerage projects financed under Provincial arrangements amount to an estimated \$48 millior in 1977-78.

<u>Transfers to Municipalities (continued)</u>		Estimated <u>1977-78</u> (\$000)
<u>Ministry of Housing</u>		
36. Elderly Persons' Housing		200
37. Provincial Share of Local Housing		
Property Management		2,530
Ontario Housing Action Program		
38. - Incentive Grant*		3,729
39. - Study Grant*		700
40. Housing Policy Studies		265
41. Community Planning Studies		1,700
42. Urban Renewal		2,000
43. Neighbourhood Improvement Program		<u>9,000</u>
	Sub-Total	20,124
<u>Ministry of Natural Resources</u>		
44. Conservation Authorities - Administration		3,410
45. Lake Ontario Waterfront		1,764
46. Supplementary		2,864
47. Capital - Flood Control		14,718
48. - Conservation Areas		3,160
49. - Sundry Capital		700
50. Conservation Authorities		
- Summer Employment (Experience '77)		1,950
51. Parks Assistance		562
52. St. Clair Parkway Commission		702
53. Access Roads to Provincial Parks		170
54. Forest Management		<u>154</u>
	Sub-Total	30,154

* Program terminated in 1976-77. 1977-78 funds are carry-over.

<u>Transfers to Municipalities (continued)</u>		Estimated 1977-78 (\$000)	
<u>Ministry of Northern Affairs</u>			
55.	Community Priorities	16,717	
56.	Regional Priorities	11,828	
57.	Townsite Development	467	
Sub-Total			29,012
<u>Ministry of the Solicitor General</u>			
58.	Integrated Radio Program*	200	
Sub-Total			200
<u>Ministry of Transportation and Communications</u>			
59.	Transportation Studies	995	
60.	Urban Planning Studies	517	
61.	Urban Transit Studies	275	
62.	Urban Expressways	2,400	
63.	Airstrip Development	1,215	
64.	Airstrip Maintenance	225	
65.	Development Roads	6,800	
66.	Road Construction and Maintenance	307,800	
67.	Connecting Link Construction	14,920	
68.	Connecting Link Maintenance	580	
69.	Roads in Unincorporated Townships	2	
70.	Subway Construction	81,000	
71.	Transit Capital	32,975	
72.	Transit Operating Deficit	54,000	
Transit Demonstration Projects			
73.	- Capital	5,210	
74.	- Operating	130	
Sub-Total			509,044

* Program terminating at the end of 1977-78.

<u>Transfers to Municipalities (continued)</u>		Estimated <u>1977-78</u> (\$000)
<u>Ministry of Treasury, Economics and Intergovernmental Affairs</u>		
Unconditional Grants		
75.	- Resource Equalization	98,500
76.	- General Support	112,000
77.	- Northern Ontario Special Support	31,000
78.	- Per Capita, General	74,912
79.	- Per Capita, Policing	91,946
80.	- Per Capita, Density	5,530
81.	Compensation for Loss of Revenue	2,500
82.	Transitional and Special Assistance	19,500
83.	Municipal Language Training and Translation	300
84.	Special Emergency Assistance	1,500
85.	Student Involvement in Municipal Administration	750
86.	Disaster Relief	300
87.	Regional Priorities	<u>5,150</u>
Sub-Total		443,888
TOTAL		<u>1,537,780</u>
Grants to Local School Boards		<u>1,880,000</u>
TOTAL GRANTS		<u><u>3,417,780</u></u>

Problems of the Grant System

In this section the Committee describes the problems it has identified during its assessment of the existing grant structure. The recognition of these problems assisted the Committee in formulating the guiding principles which the Committee established for itself in the subsequent chapter.

1. There are too many specific grant programs. This is obvious, and scarcely needs elaboration. The breadth of activities covered by conditional grant programs is such that very few local functions remain unaffected, as indicated by the table in the preceding section. As seen below, many other problems stem from this fact.
2. There is confusion and uncertainty among recipients. Many municipalities do not have the resources to comprehend and take full advantage of the currently complex grant system.
3. The administrative requirements are excessive. Each conditional grant program brings with it peculiarities of its own and associated variations in administrative procedures and practices. Some differences in administrative procedure are unavoidable by the nature of the programs involved, but most are merely a reflection of differences in approach among

ministries. We found pre-approval systems, some of which were unrealistic; we found monthly claim form systems, with payments based on some and not on others; we found monthly spending reports where payments have a completely different pattern; we found elaborate claim forms to qualify for grants where the maximum entitlement is far below actual spending on the relevant function; we found payment practices ranging from twice a month to once a year; and we found widely varying audit practices both in respect of Provincial and local auditors. In short, the administrative system reflects the complexities of the existing grant structure. The Committee has not attempted to estimate the dollar cost and manpower cost of this system, but it seems reasonable to assume that a great deal of avoidable expense is involved.

4. There is too much "entanglement". The multitude of conditional grant programs has resulted in a blurring of jurisdictional responsibilities between the Province and its municipalities.
5. The system impairs local autonomy. This follows from the very nature of conditional grants themselves. It is a generally accepted fact that conditional grants distort local priorities by leveraging recipients into those expenditure areas where substantial amounts of the cost can be recovered through a

grant. The scope for such distortion in the present grant structure is obviously high where rates range to over 90 per cent. Confronted with financially biased alternatives, local councils lose much of their autonomy as independent decision makers.

6. There are too many special-purpose bodies. The existence of these bodies has become an understandable irritant to municipal councils. They are relatively independent in terms of their budgetary decisions; they have varying degrees of requisitioning power; and as a rule, their budgets can not be weighed by councils against all other requirements. The priority-setting process of municipal councils would be more soundly based if the total requirements of these bodies featured in the annual municipal budget cycle, instead of only the net requirements with limited scope for appeal. In fact, the combined forces of school boards and other special-purpose bodies may exert such pressure on mill rates that municipal councils feel forced to exercise more restraint in activities they control directly than is exercised by these bodies for which they raise property taxes.
7. Some grants are obsolete. In the Committee's view, a number of grant programs are no longer justifiable and should be abolished. A more complex situation arises in connection with

so-called "mature" programs; these have helped in the development of municipal programs that are now well established, and their continued existence has to be questioned.

8. There is an inconsistent variety of equalization provisions.

Over time, many conditional grant programs have developed various ways of accommodating the differing needs and resources of recipient governments and agencies. In this context, different measures are used for the local tax base, the recognized degree of fiscal disparity, and the recognized level of expenditure, while even the legal status of municipalities may play a role. As a result, the equalization system is characterized by distributional anomalies, avoidable complexities, and instances of duplication or inconsistency.

It is useful to conclude the present chapter by noting - as implied previously - that restraint has tended to bring these problems into sharper focus. Restraint, as reflected in the level and structure of grant payments, tends to alter the grants distribution in ways that are sometimes undesirable from a strictly programmatic point of view. Some municipalities spend in excess of their eligible expenditure while others, if subject to different pressures, fail to take up their restrained allocation.

In other words, restraint only serves to highlight the distorting impact of a conditional grant structure on local priority setting.

CHAPTER 3

THE COMMITTEE'S APPROACH TO GRANT REFORM

Introduction

The Order-in-Council establishing the Committee authorized it to study the possibility and feasibility of altering - in whole or in part - the present system of transfer payments to local governments and authorities so as to put them on a "sound, equitable, and efficient" basis. These three criteria form the set of standards by which the existing system is to be judged either adequate or deficient. And, of course, they are the standards which our recommended changes seek to meet.

It goes without saying that these criteria can be interpreted in a variety of ways; we therefore think it useful to spell out in detail the meanings we have attached to them, and hence, the basic philosophy underlying this Report. Our procedure was to expand the terms "sound, equitable, and efficient" into nine general principles that characterize a well-designed grant system. These principles are listed and explained in the first section of this chapter. It was on the basis of this broader and more specific scale that we judged the existing system in need of repair. We then examined a number of general reform strategies with a view to determining

which one, or which combination, would best promote the principles at hand. The various avenues of reform are discussed and evaluated in section two.

I. The Guiding Principles

(a) The term "sound" obviously embraces the other two criteria of equity and efficiency; a grant system which is sound must be, among other things, fair and cost-effective. But in the context of the present study, it means something more. In our opinion, it means that the grant system should work to enhance, not reduce, the benefits that flow from Canada's federal political structure. While municipalities are not formally part of the federal system, many of the principles of federalism still apply to the provincial-municipal relationship.

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| <p>1. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD NOT UNDERMINE
LOCAL AUTONOMY</p> |
|--|

The literature on political theory and public finance advances, almost without exception, the proposition that local government is a virtue in and of itself. This notion has been with us at least since the time of the Greek city-states. One argument is that local self-government fosters awareness, participation and

a sense of community; that it encourages the attitudes and values that sustain democracy at the national level. A second argument is that local government is "closer" to the citizens and therefore more knowledgeable of their problems and priorities; in this respect, it is said to be more "sensitive" than senior and geographically-distant authorities. It follows that government functions should reside at the local level unless there are demonstrable reasons for centralizing them.

The Committee supports this philosophy whole-heartedly. We note that similar affirmations were made by the Smith Committee in 1967. The fact that the reform process to date has stressed unconditional over conditional grants indicates that the Government, too, sees local autonomy as a desirable end. We thus state our first principle with confidence: that the provincial-municipal transfer system should not undermine local autonomy.

The existing grant system interferes with local autonomy in two ways. First, the conditional grants, with their widely varying subsidy rates, exert financial leverage on local councils, and undermine their right and ability to respond to the priorities of their own electorates. Consideration of this problem has led the Committee to the conclusion that, unless there are other overriding considerations, detailed conditional grants should be

avoided. Second, the payment of grants to special-purpose bodies frequently tends to perpetuate their existence. As explained earlier, these bodies tend to diminish the autonomy of local councils by virtue of their relative budgetary independence; they need to be re-examined with a view to reinforcing political accountability.

<p>2. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD RECOGNIZE PROVINCIAL RESPONSIBILITY</p>

The theory of federalism begins with local autonomy, but makes very clear the circumstances in which it will have to be transcended. In other words, it explains why a senior level of government is usually necessary.

One such circumstance is the existence of "externalities" at the local level. Externalities occur when benefits or costs impact on a wider basis than the individual municipality. An expenditure by one municipality may actually benefit residents in neighbouring jurisdictions; unless the neighbours are somehow charged, they gain an unearned and unwarranted subsidy. An example is roads: excellent roads paid for by the taxpayers of one area are frequently used by taxpayers next door. Conversely, a

municipality's failure to spend may impose costs on its neighbours. The classic example is pollution: the failure to treat wastes upstream increases the costs of water purification downstream. When externalities exist, there clearly needs to be a senior level of government to solve the problem. It can do this in one of several ways: by taking over the function in question, by adjusting the size of municipalities so as to eliminate the spill-over, by setting up a system of compensatory finance, or by imposing minimum or maximum "standards" on all municipalities. Many shared-cost programs are described as "stimulation" grants. In theoretical terms, their purpose is simply to encourage local governments to provide minimum service levels so that externalities do not become serious.

A second circumstance relates to economies of scale.

It may occur that the level of demand for a particular service in a single area is insufficient to allow that service to be delivered at the lowest per unit cost. To the extent that historical or political accidents prevent adjacent municipalities from negotiating a pooling of their efforts, there is need for a senior level of government to either assume the function or redraw the boundaries. An example is the introduction of regional government in Ontario, one purpose of which was to reduce fixed costs by eliminating duplications in manpower and administration. Sometimes maximum

economies can be achieved over an area embracing only a few municipalities; often they are achieved at only the provincial - or even national - level.

A third circumstance is the fact that the electorates of individual municipalities often lack sufficient information to make the "best" decision. The control of diseases is an example; externality and scale arguments aside, we have to doubt that a society would allow some of its members to under-protect themselves out of plain ignorance of the danger. The senior government can either disseminate information, or centralize the function.

Fourth, a senior government has a role to play in developing new service technologies - technologies which could not normally be pioneered by individual local governments, either because of the project costs, or because of the difficulties of organizing their own consortia. Numerous "demonstration" projects are defensible on this ground; an example is research into public transit.

To sum up, the theory of federalism provides explicit reasons as to why local autonomy sometimes has to be transcended. In Canada, local governments and agencies are the direct creations of the Province. The Province is thereby vested with important

responsibilities, namely: the responsibility for determining which functions should be left at the local level and which should be centralized, the responsibility for organizing appropriately sized municipalities, and the responsibility for providing advice and financial assistance to its local governments.

We thus arrive at our second principle, stated above, that the provincial-municipal transfer system should not undermine the Province's capacity to carry out its own responsibilities. It should not become so complex and confusing that it in practice inhibits the reform of local government structures or functions, or obstructs the provision of advice and assistance.

The Committee believes that the principles of local autonomy and provincial responsibility are mutually reinforcing. In this, we agree with the Smith Committee Report, which stated that the latter

draws on the incontrovertible fact that municipalities are creatures of the province and legally subject to provincial statutes. It emphasizes, however, that the considerable power vested in provincial legislatures should only be discharged with reference to an abiding and pervasive concern for the promotion of healthy municipal institutions. Thus the power of a province to create municipalities involves a heavy responsibility for organizing local authorities that will embody a population, area, and resources adequate for the conduct of efficient government. Viewed in the above light, local autonomy and provincial responsibility are indeed mutually complementary.¹

1. Ontario Committee on Taxation, Report, Vol. I (Toronto: Queen's Printer, 1967), Pp. 43-44.

3. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD CLARIFY
JURISDICTIONAL RESPONSIBILITY AND ENHANCE ACCOUNTABILITY
TO THE TAXPAYERS

In the execution of their legitimate functions, governments frequently enter into contractual relationships with each other. Tax sharing, equalization, and shared-cost programs are all examples. The result is that responsibility is actually blurred. Taxpayers are not sure to whom their dollars go; they are not sure to whom to turn when they want information or assistance; they are not sure whom they should hold accountable. The Committee believes that jurisdictional entanglement and the concomitant decline in political accountability are serious problems. By listing clarity as our third principle, we mean to suggest that it is, in fact, a prerequisite for a properly working federal system.

We believe that the grant system should neither perpetuate confusion nor stand as an excuse for not "rationalizing" functions. Where possible, attempts should be made to transfer responsibility for entire functions to one level of government or another. To the extent that such disentanglement is not possible, we believe that grant programs should at least be simplified in terms of clearly assigning responsibility.

(b) The second criterion of the Order-in-Council was "equitable". Like the term "sound", "equity" can be expanded into three operationally meaningful principles.

4. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD PROVIDE
FOR EQUALIZATION OF FISCAL CAPACITY

There are significant differences in the fiscal capacity of Ontario's municipalities. Since property taxation is the principal source of local government's own-account revenue, the fiscal capacity of municipalities is usually measured by their per capita assessment. Without equalization, a fiscally deficient municipality can provide a service comparable to that in a better-endowed municipality only by imposing higher levels of taxation. That identical taxpayers might face different taxes for the same level of service is a violation of normally accepted notions of equity. A grant to equalize fiscal capacity is therefore necessary.

The need for equalization is reinforced by the Province's ability to delegate functions to the municipal sector and prescribe specific levels of service. The point

was made by the Smith Committee as follows:

if a province has the authority not only to devolve mandatory functions upon local government but also to prescribe standards of municipal performance, the need to take account of intermunicipal differences in fiscal capacity is clear and unambiguous.²

We thus state our fourth principle, as above. We are of the further opinion that, on grounds of logic and equity, a single and explicit equalization program is preferable to a series of conditional grants with separate "equalization" components. As noted in Chapter 2, the existing welter of equalization adjustments to the shared-cost programs tends, in practice, to defeat the objective of overall equity.

5. THE SYSTEM OF PROVINCIAL-MUNICIPAL TRANSFERS SHOULD
RECOGNIZE DIFFERENCES IN EXPENDITURE NEEDS ARISING FROM
DIFFERENCES IN CIRCUMSTANCES THAT ARE BEYOND THE CONTROL
OF INDIVIDUAL MUNICIPALITIES

Equalizing fiscal "need" is more problematic than equalizing fiscal capacity. Differences in per capita expenditures are sometimes taken to be synonymous with differences in need. But strictly speaking, this is true only if the higher expenditures

2. Ibid., p. 44

are essentially unavoidable; otherwise, they merely reflect differing levels of demand for the service in question. Real differences in need can arise for any of the following reasons:

- differences in size. A municipality may be too small to realize economies of scale in the provision of a necessary service; its costs are therefore abnormally high.
- differences in the structure of client groups. Abnormally high and unavoidable costs can be occasioned by the existence of seasonal populations and large numbers of welfare recipients, the elderly, et cetera.
- differences in the prices of resources used in the provision of services. Abnormally high costs can be caused by distance from suppliers.
- differences in climate and terrain. Obvious examples are snow ploughing and the construction of roads through rocky or muskeg areas.

The Committee is convinced that the grant structure should recognize the differences in fiscal need that stem from such unavoidable circumstances.

6. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD RECOGNIZE THE DIVERSITY BETWEEN MUNICIPALITIES IN TERMS OF SIZE, STRUCTURE, AND EXPERTISE

There are a number of circumstances other than fiscal need that may warrant different grant rates or grant structures.

For example, special problems are posed by the existence of such grant recipients as Indian bands, unorganized communities, and single-tier local governments. The Committee is open to the idea of special treatment for them; the goal of sector-wide uniformity has a certain appeal, but a few unusual cases should not be allowed to frustrate reforms that will affect the majority of local governments.

Special problems are also posed by the existence of extremes in technical expertise and administrative capacity. One of the problems with the existing grant structure is that smaller and "less sophisticated" municipalities are less able to understand the many grant formulas, and, as a result, sometimes fail to take advantage of assistance programs for which they might be eligible. It can be argued that the electorate in such municipalities is making a conscious and rational decision. For example, it is knowingly undertaxing, and refusing to hire the necessary personnel,

because of its preference for private goods over public services. To provide a subsidy "for their lack of expertise" would be to reward them undeservingly. On the other hand, it can be argued that the electorate does not have sufficient information to weigh the alternatives rationally. To the extent that information problems can not be overcome by greater simplicity in the grant structure and by better advice from the Province, some form of differential assistance may indeed be necessary.

Finally, a "clustering" of factors may make special arrangements necessary. Metropolitan Toronto and the regional governments are sufficiently different in terms of size, expertise, fiscal capacity and fiscal need that it may be appropriate to consider a special grants regime for them, rather than trying to accommodate all these differences within a single structure.

In advancing the principle that the grants system should recognize extreme differences in size, structure and expertise, the Committee wishes to advance one important caveat. It is this: ideally, there should be no more than two basic grant structures; otherwise, confusion and inequity would only increase.

(c) The term "efficient" has a very technical meaning in the literature on public finance. It is not the Committee's intention to engage in a theoretical discussion of the extent to which the

grant system is or can be "efficient" in the economists' sense. We take the position that the Government, in establishing the Committee, had in mind a more everyday usage of the word, namely, administrative efficiency. Our concern is with how well the system is run, and with the scope for achieving cost and time-saving improvements. So conceived, the criterion of "efficiency" leads to a number of principles.

7. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD BE
SIMPLE TO COMPREHEND

The Committee believes that the principle of simplicity needs a great deal of emphasis. We are convinced that the existing system involves an enormous waste of time and resources. But greater simplicity would do more than just save money; it would also enhance accountability by breaking down the information barrier that currently stands between "specialists" on the one hand and elected officials on the other.

The principle of simplicity generates three action directives. First, it says that an effort must be made to reduce the number of grant programs; in the Committee's view, this is a top priority. Once this has been accomplished, there must be

vigilance against a renewed proliferation, one possible mechanism being the incorporation of limited lifespans or periodic mandatory reviews in all grants legislation. Second, the principle says that efforts must be made to streamline individual grant programs, where possible purging them of anachronistic or excessively complicated features; and that this re-examination should be absolutely thorough and touch each and every program. And third, it says that notwithstanding any other reforms, the whole administrative system has to be scrutinized with a view to developing standardized and simplified procedures.

8. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD PROVIDE CERTAINTY

Careful forward planning is essential if governments are to operate in a cost-effective way. Such planning is made difficult if uncertainty surrounds future revenue and expenditure levels. While much of this is an unavoidable fact of life, senior governments in a federal system can enhance certainty by making known in advance the transfers they will make. This is important in the Ontario-local case because transfers from the Province form a substantial portion of municipal revenues.

Ontario's revenue-sharing arrangement, the so-called Edmonton Commitment, does not really address this problem. While it provides guidance on the totality of funds that will be available, it does not provide details on their distribution. Shifting Provincial priorities make the allocation unpredictable, and frequent changes to individual grant formulas create further difficulties in projecting entitlements. Early Provincial announcements since 1975 have improved this situation on a year to year basis, and we suggest the practice be continued.

9. THE PROVINCIAL-MUNICIPAL TRANSFER SYSTEM SHOULD BE COMPLEMENTED BY AN AVAILABILITY OF PROVINCIAL TECHNICAL EXPERTISE, AND EXCHANGES OF INFORMATION

Whatever their particular scope or rationale, conditional grants have served as a "useful point of contact" between local and Provincial officials, constituting an informal channel for the exchange of information. Reform of the grant structure should not unduly disrupt such information flows: it must not impair the Province's ability to ascertain whether or not local autonomy and accountability are in fact being enhanced, nor must it impair the ability of local officials to find the technical and administrative advice that they need. An

administratively efficient system of intergovernmental transfers implies shared information, and if deconditionalization reduces the information flow, alternative channels of communication may have to be opened.

II. Strategies for Reform

The foregoing principles were developed by considering the necessary conditions for a sound, equitable and efficient system of provincial-municipal transfers. The literature on public finance offers a number of broad (and not mutually exclusive) strategies for grant reform. This section discusses and evaluates these strategies in the light of the general principles adduced earlier. It also seeks to acquaint the reader with some of the technical terms that inevitably accompany such a complex subject.

1. Deconditionalization (Elimination) of Grants. The principle of local autonomy implies that grants be unrelated to specific program expenditures — that they be unconditional. One way to achieve this effect is to eliminate specific grant programs and add the funds that are freed up to the package of unconditional grants. This process is known as deconditionalization. Meaningful deconditionalization

can not be achieved if there is a simultaneous expansion in the number of conditional grants in other areas.

2. Consolidation of Grants. Separate but related grants are consolidated into a broader conditional grant program so that there is no incentive to distort local priorities among the expenditure fields within the related programs.
3. Block Funding. A more extreme version of grant consolidation is "block funding" wherein all present programs in a broad functional area (eg. transportation) are eliminated in favour of a general grant. A block grant may or may not be related to the municipality's expenditures on the broad function; the point is that, either way, municipalities have total freedom to allocate the funds within the function. Block grants were a popular option in the U.S.A. during the late 1960s and we have briefly reviewed the American experience in a special note at the end of this chapter.
4. Privatization. Particular activities which are presently carried out by both levels of government are simply returned to the private sector. There are

several attractive features to this approach. It eliminates the distortionary effects of externalities and the requirement to equalize fiscal capacity or needs. A variation of complete privatization involves the purchase of services currently supplied by government from private suppliers and their distribution by social design. These options, however, presented the Committee with certain philosophical problems which are discussed in a second note at the end of this Chapter.

5. Transfer of Financial Responsibility. Under this alternative, full responsibility for a particular activity is transferred from one level of government to another. Transfers of responsibility from municipalities to the Province or vice-versa can clarify jurisdictional responsibility. If benefits of the transferred service spill over into other provincial jurisdictions or the municipality is too small to deliver the service to achieve maximum economies of scale, the transfer to the Province will enhance efficiency. In some isolated cases it is also worth considering a transfer of responsibility to the federal government in order to resolve an "entanglement" of all three levels.

If the responsibility is transferred from a lower-tier municipality to a county or region there may be more efficiency resulting from economies of scale and, in effect, more equalization within the region.

Clearly, the responsibility for transferring functions resides with the Province itself and reflects the principle of Provincial responsibility.

6. Transfer of Administrative Responsibility. Economies of scale and efficiency can be achieved in small municipalities by transfer of the administrative — as opposed to political and financial — responsibility to the Province or the private sector in return for paying a fee for service. The fees will reflect the cheaper, more economical technology employed by the administrator.
7. Rationalize the Equalization of Fiscal Capacity. On grounds of logic and equity, the elements of the many conditional grants that are designed to equalize fiscal capacity should be consolidated into one single explicit grant. A single grant is sufficient because there is virtually one element of municipal fiscal capacity — the property tax base.

8. Structural Rationalization. The structure of a program can be simplified or rationalized. These reforms can include such changes as realignments between ministries, changes in grant rates, integration into income security systems, adaptations to reformed assessment and local taxation, and changes in administrative procedures. With respect to the latter, the whole administrative system could be scrutinized with a view to developing standardized and simplified procedures.

9. Differential Reforms. Because particular reforms may not be equally suitable for all municipalities, there may be a need to introduce two grant structures for a single function. The definition of which groups of municipalities would be eligible for which structure could be based on such criteria as population size or type of municipal structure. Similarly, special exceptions or arrangements might be required in most of Northern Ontario, since much of this part of the province is unorganized municipally or, with the exception of the Sudbury area, does not have a two-tier local government structure.

A Special Note on Block Grants

In early 1977 the Advisory Commission on Intergovernmental Relations (A.C.I.R.) published two special evaluation studies of block grant experiences in the United States. Even though these involved Federal-State and Federal-State-Local transfers, the lessons learned in the U.S. have a direct relevance to our deliberations. The Committee is not particularly encouraged by what the A.C.I.R. found in its detailed study of a decade of block granting, even though all recipients felt it was an improvement over the old system of numerous categorical (conditional) grants. The main concern appears to be with the degree to which the donor is willing to relinquish control, refrain from adding new functional priorities of its own, and avoid introducing standards of services. In fact, the A.C.I.R. found a pronounced tendency toward "re-categorization"; in its own words:

One objective was simple and quite clear, though not of overriding importance. Consolidation of separate grants was viewed as a way to lessen the administrative burden which categoricals imposed.³

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3. Advisory Commission on Intergovernmental Relations, The Partnership For Health Act: Lessons From a Pioneering Block Grant (Washington, D.C.: Advisory Commission on Intergovernmental Relations, 1977), P.89.

Perhaps the most important goal was providing (recipients) with greater flexibility in the use of assistance, which then would be spent in accordance with the peculiar needs and priorities of each state.⁴

In potential conflict with this emphasis on flexibility was another purpose, which emerged (over time), This was that block grant funds were to be expended to further (the donor's) services priorities. This objective generated the trend toward partial recategorization of the block grant and the refusal to fold into the new grant categoricals that were functionally related to it.⁵

The modifications of the block grant evidence two main themes, both of which are manifestations of the basic tension in the block grant between furthering (donor) priorities and supporting virtually any (recipient activity within the functional) program. The stronger theme has been the tendency of (the donor) to recategorize by mandating attention within the block grant to particular problems, and by creating 20 new categorical programs since (inception) which would logically have been made part of the block grant.⁶

The obvious lesson is that block grants are a useful option, but that their attractiveness deteriorates with time and evolving donor priorities. It is simply unrealistic to regard them as a once-and-for-all panacea.

4. Ibid., P.89.

5. Ibid., P.89.

6. Ibid., P.89.

The Advisory Commission also found that block grants are most suited to established or "mature" functions, and that activities previously supported with specific grants are unlikely to be discontinued, starved, or subject to deterioration. On the other hand, they are unsuitable if the donor is seeking to stimulate activity in a particular area; in this case, specific grants for specific purposes were found most effective.

Block grants which are formed by consolidating existing grants may have very different implications for recipient flexibility than block grants in largely new program areas. The former will have inherited established programs and their vested constituencies, while the latter have no corresponding claimants for continuing support.⁷

This consideration was taken into full account by the Committee.

A Special Note on Privatization

It is obvious that privatization is one option for reducing the problems of the grants structure. However, some concern was expressed as to whether the Committee could actually recommend privatization in particular instances. There was no doubt that the Committee could "legitimately" recommend the abolition of anachronistic programs, the reform of existing programs, and even the transfer of existing responsibilities

7. Ibid., P.89

from one level of government to the other. None of these recommendations are so fundamental as to alter the nature and the size of the public vis`à`vis the private sector. Privatization involves a political judgement about the size of the public sector which we take to be beyond the Committee's terms of reference.

CHAPTER 4

THE ENVIRONMENT

In this chapter, we will be dealing with grants towards water and sewerage services as well as various programs of assistance to conservation authorities.

Water and Sewerage Services

The Province's involvement in this area originated in 1957. For the first decade, its role involved the financing, supervision of construction, and operation of individual projects. This provided municipalities with the advantage of access to the Province's greater financial capacity and technical expertise. The Province only advanced loans which were repayable over periods of 30 to 40 years.

By the late 1960's, rapidly rising concerns about water-borne health hazards and the protection of the environment led the Province to place greater emphasis on communal works, the costs of which were frequently in excess of the financial capabilities of smaller communities. In 1965, Provincial programs were introduced to provide water and sewerage services to municipalities from Provincially-owned facilities. From 1969, projects financed by the Province became eligible for subsidies under two separate schemes. The first assisted small municipalities where costs of communal water

and sewerage services were above average. The second encouraged economies of scale and provision of capacity in advance of anticipated need through 15 per cent capital grants towards the construction of area works servicing more than one municipality.

Non-Ministry projects first became eligible for grants in 1974 through a new scheme of assistance to major works in restructured municipalities.

A further development, approved in August 1977, provides grants to a maximum of 75 per cent of the capital cost to encourage the repair and renewal of private systems where this is a cost-effective way of solving problems. This meets a concern expressed by the Committee prior to the new program's coming into effect. The new grant should reduce the past tendency of small municipalities to opt for relatively expensive communal systems for the reason that the latter course of action was their only way to obtain assistance.

In 1977, approval also was obtained for grants of up to 75 per cent for high-cost projects and 15 per cent for area schemes to be made available to works financed by municipalities themselves. Terms of eligibility are those that apply to Ministry projects.

Until these recent changes there were five different types of Provincial grant programs.

1. High-cost projects in small municipalities - Provincial projects
 - (a) grant to a maximum of 75 per cent of gross capital cost where annual household charges exceed a standard amount (\$130 and \$110 for sewerage and water, respectively);
 - (b) projects are built, financed and usually operated by the Ministry;
 - (c) subsidy and 40-year capital debt amortization are reflected in the gallonage rates charged to municipalities;
 - (d) debt repayment schedule is characterized by deficit financing in early years. There is an interest charge on these deficits which are recouped in the later years of the term;
 - (e) ownership remains vested in the Province.

2. High-cost projects in small municipalities - Provincial/municipal projects:
 - (a) grant to a maximum of 75 per cent of the gross capital cost where annual household charges exceed the standard amount;
 - (b) projects are built, financed, and usually operated by the Ministry;
 - (c) 30-year debt retirement period; non-consumption charging system;
 - (d) municipal ownership after debt retirement.

3. Grants for Provincial area projects involving more than one municipality:
 - (a) grant of 15 per cent of gross capital cost of major works;
 - (b) projects are built, financed, and usually operated by the Ministry;
 - (c) subsidy and 40-year capital debt retirement are reflected in the gallonage rates charged to municipalities;
 - (d) debt repayment schedule is characterized by deficit financing in early years. There is an interest charge on these deficits which are recouped in the later years of the term;
 - (e) ownership remains vested in the Province in most cases.

4. Grants to restructured municipalities for major communal systems:

- (a) grant of 15 per cent of gross capital cost of major works;
- (b) responsibility for construction, operation, and financing rests with recipients.

5. Regional Priority Budget:

- (a) 100 per cent capital grant;
- (b) 50 per cent reimbursement from the federal government if under DREE

In addition, assistance is available from the federal government through CMHC as follows:

6. Loan Forgiveness:

- . 25 per cent of loans (which themselves are restricted to two-thirds of eligible project costs).

7. Grants for certain high-cost projects:

- . maximum of 50 per cent of eligible capital cost.

This overview has been kept as simple as possible and, for more detail, the reader is referred to the Appendix material on these programs.

Recognizing that water and sewerage supply are vital local functions, the Committee is concerned about the nature of the involvement of other levels of government in this area. Between CMHC and Provincial assistance, the total grant rate can reach 100 per cent. The Ministry is also heavily and directly involved in the planning, building, financing and operating of facilities. As a result, local responsibility and accountability have been eroded.

The Committee can not support the present Provincial accounting practice which records grant assistance and represents a complex financing procedure.

Target household user charges are important criteria for determining grant entitlements. These charges have not been changed since 1973 and have become increasingly outdated. The Committee wishes to emphasize the merit of more realistic user charges for water and sewerage services. These services are more directly related to individual properties and users than other local services. The Committee considers it desirable that the users be made more aware of the rising costs of these services.

With respect to water and sewerage grants, the Committee has carefully considered a number of reform options and rejected

deconditionalization and block funding for the following reasons:

- (a) the grant is essentially a capital grant relating to one-time major projects which are unevenly spread through the municipal sector; and
- (b) even though water and sewerage services relate directly to properties, there exists a strong "spill-over" benefit beyond the local community in preserving the environment and health standards.

The present dominant Provincial role outside regional governments and cities might have led us to consider Provincial takeover of this function, at least for small communities. However, the Committee prefers to see water and sewerage maintained as a municipal function throughout the sector and, in fact, to put greater emphasis on this, especially in regional municipalities. The Committee supports the continuation of cost-sharing arrangements, but with significant changes from the existing ones. Accordingly, we recommend:

THAT THE WATER AND SEWERAGE FUNCTION BE FULLY
ASSUMED BY THE MUNICIPALITIES IN TERMS OF ARRANGING
THE CONSTRUCTION, FINANCING, AND NOTABLY THE OPERATION
OF FACILITIES, INCLUDING THOSE NOW OPERATED BY THE
PROVINCE.

4.1

This is the longer-term approach preferred by the Committee, but the ability of smaller municipalities to "go it alone" is a matter of some concern. If the Province is reluctant to adopt such a major departure at this time, the Committee alternatively recommends:

THAT THE WATER AND SEWERAGE FUNCTION BE FULLY 4.2
ASSUMED BY REGIONAL MUNICIPALITIES IN TERMS OF ARRANGING
THE CONSTRUCTION, FINANCING, AND NOTABLY THE OPERATION
OF FACILITIES, INCLUDING THOSE NOW OPERATED BY THE
PROVINCE.

THAT THE WATER AND SEWERAGE FUNCTION BE SIMILARLY 4.3
ASSUMED BY ALL OTHER MUNICIPALITIES WHERE PRACTICABLE.

THAT THE MINISTRY OF THE ENVIRONMENT CONTINUE 4.4
A MONITORING SYSTEM BY WHICH IT CAN IDENTIFY NEEDS
FOR LOCAL ACTION, SET PRIORITIES FOR GRANT ENTITLE-
MENTS, AND PERFORM A TECHNICAL ADVISORY ROLE TO
MUNICIPALITIES.

THAT THE MINISTRY REPLACE THE EXISTING PROGRAMS 4.5
WITH A CAPITAL GRANT FOR HIGH-COST PROJECTS OF UP TO
50 PER CENT OF CONSTRUCTION COSTS NET OF CMHC ASSISTANCE

AND RELATED IN TERMS OF ELIGIBILITY TO A THRESHOLD OF PER HOUSEHOLD CAPITAL COSTS.

THAT THE ASSISTANCE TOWARDS THE REPAIR AND RENEWAL OF PRIVATE SYSTEMS SIMILARLY BE UP TO 50 PER CENT.

4.6

THAT THE EXISTING 15 PER CENT GRANT FOR AREA WORKS AND TO RESTRUCTURED MUNICIPALITIES BE REPLACED BY A 15 PER CENT GRANT FOR MAJOR PROJECTS IN MUNICIPALITIES WHICH DO NOT QUALIFY FOR ASSISTANCE UNDER RECOMMENDATION 4.5

4.7

The Committee wishes to draw attention to Recommendation 10.9 where we propose that both water and sewerage charges be included in the levy base for determining unconditional grants. This latter recommendation is being made in light of the change to a maximum 50 per cent grant for high-cost projects.

Conservation Authorities

Conservation authorities are special-purpose, inter-municipal bodies whose area of operation is determined by watersheds rather than by political boundaries. As a result, it is not unusual to have authority membership comprised of parts of

municipalities, with their remaining parts either belonging to an adjacent authority or to none at all. Conservation authorities have been in existence since 1946 and are primarily involved in projects for flood control, soil conservation, reforestation, and improvements to the habitats of fish and wildlife. Over the years, a growing part of their activities has also been oriented to the supply of recreational services.

Since conservation authorities are designed to achieve both Provincial and municipal objectives, both the Province and participating municipalities are represented on the authorities. Municipal membership is determined by a formula involving population and the share of square mileage in the watershed area. The authorities are relatively independent and have power to requisition for that part of their Provincially-approved budget which is not financed by Provincial grants. Major projects are usually financed over a number of years and require borrowing and the approval of the Ontario Municipal Board.

Since their inception in 1946, the authorities have been eligible for grants under a variety of programs, all with their own characteristics and formulas. Most of these are administered by the Ministry of Natural Resources. However, certain types of projects involve the Ministry of Agriculture and Food. In addition, under

The Canada Water Act and The Agriculture and Rural Development Agreement (ARDA), certain projects are shared by all three levels of government. Direct federal assistance is available to authorities under The Marina Policy Assistance Program of Environment Canada.

The present grants to authorities may be summarized as follows:

1. Administration grants
2. Capital grants
3. Operation and Maintenance grants
4. Supplementary (Equalization) grants

In addition, Provincial ministries supply non-financial assistance in the form of advisory services on engineering, biology, planning, forestry, finance, and administration.

1. Administration Grants

These grants amount to 50 per cent of approved expenditure including members' per diem fees, administrative staff salaries and travel, office costs (heat, light, telephone, equipment), insurance and property taxes for municipal and school purposes. Construction of office facilities used to be in this program but, commencing in 1977, this was reclassified as

capital expenditure without any adverse influence on overall entitlements.

2. Capital Grants

Capital grants apply to the cost of capital goods that are permanently incorporated into a project. Specific expenditures eligible for grant may vary among activities and are detailed in a Ministry manual. The following grant rates apply to various projects:

<u>Eligible Capital Expenditure</u>	<u>Provincial grant rate (%)</u>
1. Engineering surveys and studies (flood plain mapping, preliminary engineering)	75
2. Dams for flood control and low-flow augmentation:	
(i) land purchases	50
(ii) final engineering and construction:	
- on first \$30,000	50
- on cost over \$30,000	100
3. Dams primarily for recreation and preservation of wildlife habitat (includes acquisition and repair of old mill dams)	50
4. Channel improvements	50
5. River bank erosion control	50

<u>Eligible Capital Expenditure (continued)</u>	<u>Provincial grant rate (%)</u>
6. Conservation lands (acquisition and development of conservation area facilities)	50
7. Conservation services (e.g. tree planting, erosion control on private lands)	50
8. Niagara Escarpment land purchases	75

Capital assistance is also available from the federal government. New water control projects in excess of \$5 million are eligible under The Canada Water Act. To date, one agreement has been reached under which the federal and Provincial (Ministry of Agriculture and Food) shares are 45 per cent each and the local share is 10 per cent. Similarly, under ARDA, the development of small water supply reservoirs in northern and eastern Ontario rural areas attracts 37.5 per cent federal funding, matched by the Province, leaving a 25 per cent local share. Finally, under The Marina Policy Assistance Program, Environment Canada will undertake offshore works such as breakwaters and dredging on condition that authorities financially match this with onshore developments.

3. Operation and Maintenance Costs

Under this program, the Province provides 75 per cent grants

for approved spending on operation and routine maintenance of dam structures, pumping stations, channel improvements, weirs, dikes, groynes, erosion control works, stream and rain gauges, and telecommunication systems used chiefly for dam operation, flood control and flood warning purposes.

4. Supplementary Grants

These are essentially "equalization" grants to authorities with lower-than-average equalized assessment per square mile and higher-than-average expenditures per capita. Under this program, all cost-sharing arrangements involving a 50 per cent grant rate can be enriched from 5 to 25 per cent in grant rate. The supplementary grant rates are scaled relative to grant factors which are based on an authority's tax effort per unit of population density (see Appendix for detailed description).

This program was conceived at a time when no explicit equalization scheme was in existence. However, at the present time, an explicit equalization scheme does exist and, as we have already observed, we favour an emphasis on that scheme and the elimination of other forms of equalization. Besides, a modest equalizing effect already takes place through the authorities' considerable pooling of resources.

The Committee recommends, therefore:

THAT THE SUPPLEMENTARY GRANTS TO CONSERVATION
AUTHORITIES BE ELIMINATED.

4.8

The Committee has discussed the authorities and associated grant programs at length in its meetings. We have considered many alternatives in terms of specific grant programs, the role of authorities, and their relationship to the Province and municipalities. We are convinced that the authorities have capably handled the problems assigned to them and have proven a good medium for watershed management over the past 30 years. Nevertheless, the Committee can not ignore the growing problems with conservation authorities and other special-purpose bodies as perceived by municipalities.

Individual members of authorities are not directly accountable to an electorate. Municipalities have no formal recourse on expenditure levels set by the authorities.¹ Variations in grant rates are difficult to explain and can be distortionary in their

1. A municipality may appeal to the Ontario Municipal Board that its share of costs for a particular project is not commensurate with the benefits to be received.

own right. Priority setting can be distorted at both levels of government. Authorities over time have extended their activities to recreation, parks, education, and heritage functions, in which municipalities are also involved.

In some cases the boundaries of regions or counties substantially correspond to the watershed boundaries of the conservation authorities. In these cases, the justification for retaining conservation authorities as separate bodies is weak.

On account of these criticisms, the Committee closely examined the authorities, their functions, and their relationship with other governments.

We considered:

- (i) Limiting conservation authorities to their present water management functions only, while reverting to municipalities the recreation, outdoor education, and historical preservation roles. A water management conditional grant structure would continue, while the other activities would be assisted through either existing Provincial-municipal transfers or their replacement after reforms. This would focus the authorities' activities, slightly improve accountability, and clarify areas of responsibility. On the other

hand, it would only slightly reduce the present concerns of municipalities.

- (ii) Establishing the authorities as comprehensive water boards, transferring non-water-related functions as in the previous option, but adding to these boards the responsibility for planning, developing, operating and maintaining trunk sewer lines and major water supply systems. The boards could also be a regulatory arm of the Province for such Acts as The Lakes and Rivers Improvement Act, The Ontario Water Resources Act, and The Drainage Act. The boards would recover their costs in direct relation to services provided.

This option would facilitate comprehensive planning and greater efficiency in water management. It would also allow a reduction in the field services and operations of at least three ministries. However, it would greatly increase the powers of appointed bodies, further reduce accountability, contradict Provincial policy which seeks to strengthen local government, and further curtail municipal ability to set priorities across a wide range of services.

- (iii) Eliminating conservation authorities and splitting their functions between the Province and municipalities. The Province would assume the basic planning and management responsibilities for water, fish, wildlife and forestry programs, while the balance would revert to municipalities. Each level of government would fully fund the functions and programs it assumed. With the Province acquiring the more onerous responsibilities, full title to authority lands would revert to the Province, which could lease certain lands to municipalities.

This alternative recognizes that the benefits of a sound water management system go considerably beyond individual communities. It would be consistent with the Provincial policy, enunciated in Design for Development, Phase III, to reduce the number of special-purpose bodies and enhance accountability in the government sector. It would eliminate several significant conditional grant programs, the possible duplication in non-water management functions, and the distortionary effect on local priorities of requisitions from authorities.

Conversely, the Committee recognizes the need for managing water on an intermunicipal watershed basis, the potential alienation of grass roots support and "volunteerism" associated with the "conservation" movement, and the possible loss of some municipal interest in areas such as outdoor recreation on a broad geographic scale.

Having found the present system wanting, and having weighed the alternatives carefully, the Committee concludes that conservation authorities should be retained, but recommends:

THAT WHERE THE BOUNDARIES OF COUNTIES OR REGIONS AND EXISTING CONSERVATION AUTHORITIES ARE SUBSTANTIALLY COTERMINOUS, THE FUNCTIONS OF CONSERVATION AUTHORITIES BE TRANSFERRED TO UPPER-TIER MUNICIPALITIES. 4.9

Where a municipality outside a county or region is part of the same conservation authority, that municipality would contribute towards the costs of services formerly provided by the authority through a fee-for-service arrangement with the county or region. In addition, the rationale for Provincial representation in these cases would no longer apply. To improve local government control and responsibility in the conservation field, the Committee further recommends:

THAT MUNICIPALITIES BE ENCOURAGED TO APPOINT 4.10
A GREATER PROPORTION OF ELECTED REPRESENTATIVES TO
CONSERVATION AUTHORITIES,

THAT THE CONSERVATION AUTHORITIES ACT BE AMENDED 4.11
TO REQUIRE THAT PRELIMINARY CONSERVATION AUTHORITY
BUDGETS BE CIRCULATED TO ALL MEMBER MUNICIPALITIES FOR
COMMENT IN ADVANCE OF THE ADOPTION OF THE CONSERVATION
AUTHORITY BUDGET,

In accordance with our view that grant rates in excess
of 50 per cent erode local autonomy, and considering increased
assistance through an enriched levy-based grant system, we recommend:

THAT ALL CAPITAL GRANTS BE CONSOLIDATED AT 4.12
A UNIFORM RATE OF 50 PER CENT,

THAT, WHERE THERE IS FEDERAL ASSISTANCE 4.13
INVOLVED, THE PROVINCIAL SHARE OF A PROJECT BE CAL-
CULATED ON THE BASIS OF THE NET COST OF THE PROJECT,

The Committee is of the opinion that local costs of a
basic operation or maintenance nature should largely be a local
responsibility. In the context of conservation authorities, this
would mean that such costs would have to be financed entirely by

the annual requisitions on member municipalities. We do not think, however, that this would create an onerous burden upon municipalities in light of the pooling of resources inherent in the structure of a conservation authority and the increased emphasis we foresee on an explicit equalization grant to municipalities. We therefore recommend:

THAT ADMINISTRATION, OPERATION, AND MAINTENANCE GRANTS TO CONSERVATION AUTHORITIES BE ELIMINATED. 4.14

During its discussions, the Committee noted that in recent years conservation authorities have been gradually becoming involved in areas of activity which are of a local nature, particularly in the field of recreation. The Committee, however, is of the opinion that conservation authorities should confine their activities to those which are clearly intermunicipal and thereby continue to adhere to the purposes for which they were created. Accordingly, we recommend:

THAT IN THE IMMEDIATE FUTURE THE PARKS AND RECREATION ROLE OF CONSERVATION AUTHORITIES BE LIMITED TO PROVIDING INTERMUNICIPAL POPULATIONS WITH NATURAL RESOURCE BASED RECREATIONAL OPPORTUNITIES. FOR THE 4.15

LONGER TERM, THE COMMITTEE FURTHER RECOMMENDS THAT A REVIEW OF THE PARKS AND OUTDOOR RECREATION POLICY BE UNDERTAKEN WITH A VIEW TO THE ESTABLISHMENT OF A MUCH CLEARER AND MORE RATIONAL DIVISION OF RESPONSIBILITY BETWEEN WHAT SHOULD BE CLEARLY PROVINCIAL AND CLEARLY MUNICIPAL FUNCTIONS.

CHAPTER 5

TRANSPORTATION

This chapter will deal primarily with road grants, which are not only the oldest but the most important of municipal grant programs in financial terms. At the present time, road grants exceed \$300 million annually and Provincial transfers for transportation in the broadest sense will exceed \$500 million for 1977-78. When it comes to simplifying or rationalizing the grant structure and enhancing local autonomy, therefore, the transportation area takes on particular significance.

Provincial road grants were initiated in 1901 and gradually developed into a fairly extensive and sophisticated system. Ironically, it was not until 1935 that the Province abolished the arrangement whereby municipalities also made financial contributions to the Provincial highway system. The Appendix provides a more detailed chronological survey of developments in road financing since the turn of the century.

Local roads are a classic example of a service providing benefits which extend to users who do not reside in the community and, therefore, do not contribute directly to that community's tax revenues. This spillover of benefits is the logical underpinning for the existing Provincial assistance

programs. However, the Committee believes that this should not preclude an examination of the merits of continuing the present grant approach.

Local Roads and Bridges

The Ministry of Transportation and Communications at present subsidizes all road or bridge maintenance and reconstruction costs up to an annually determined allocation per municipality. Spending on new roads is eligible for subsidy only in particular cases, primarily for the opening of a previously unopened road allowance in the original township, town or village survey, and for "main thoroughfares" designated by the Minister. Spending on new roads for residential or industrial subdivisions is not eligible for subsidy. Eligible spending includes storm sewers to a maximum of 27" diameter for road drainage and the cost of replacing sanitary sewers, watermains, and sidewalks rendered useless by road construction, but excludes installation of new sanitary sewers, watermains or sidewalks. In rural municipalities, grants also apply to capital and operating costs for road equipment and overhead which are directly attributable to road improvements. The arrangement differs for urban municipalities, where road-improvement use of equipment is costed on a rental basis and overhead is calculated at seven per cent of subsidizable spending.

The grant rates are applied to total eligible expenditure after deducting local improvement charges and contributions from other sources, such as those from the federal government and developers. The Ministry employs a variety of grant rates, which depend on the program, status and the size of a municipality. The following provides a brief overview of the existing grant structure:

<u>Local Road and Bridge Subsidies</u> ¹	<u>Roads</u>	<u>Bridges</u>
Regions, Counties and District of Muskoka	50% to 80%	50% to 80%
Metro Toronto	50%	50%
Boroughs	50%	80%
Cities and Separated Towns	50%	50%
Towns and Villages	50%	80% ²
Townships, Improvement Districts and Indian Reserves	50% to 80%	80% to 100%
<u>Development Road Agreements</u> ³		
Townships	up to 100%	up to 100%
Towns and Villages in Territorial Districts	up to 100%	up to 100%

-
1. Traffic signals are funded at 50% in both upper and lower-tier municipalities.
 2. The Public Transportation and Highway Improvement Act states that assistance shall be granted at a rate "not exceeding 80%." Generally, bridges have been funded at 80%.
 3. The grant is usually paid at a rate of 100%.

<u>King's Highway Connecting Link Agreement⁴</u>	<u>Roads</u>	<u>Bridges</u>
Cities and Separated Towns - (Construction only)	75%	75%
Towns, Villages, Townships & Improvement Districts - (Construction and Maintenance)		
- Population up to 2,500	100%	100%
- Population greater than 2,500	90%	90%
<u>Unincorporated Areas</u>		
Local Roads Boards	66 2/3% to 80%	66 2/3% to 100%
Statute Labour Boards	50%	100%
Work Orders ⁵	50% to 100%	100%
<u>Studies on Traffic Operations, Needs, and Planning</u>	75%	75%

An important part of the Ministry's approach is the determination of needs for reconstruction and maintenance. These measures attempt to allow for the relative condition of local systems, the cost of eliminating deficiencies over time,

4. The Public Transportation and Highway Improvement Act states that the Provincial funds contributed are "not to exceed" the subsidy rates quoted. Generally, connecting links have been funded at the above rates.

5. In accordance with work orders, the Ministry will undertake road work for individuals or groups and charge them for services rendered at the subsidized rate.

and variations in local assessment bases, types of roads, winter conditions, labour rates and material costs. The Appendix explains in detail how these factors are incorporated in practice and how variable grant rates are calculated. This approach reflects an attempt to equalize intermunicipal differences in fiscal needs.

The special study of maintenance and construction needs is a critical tool in allocating limited total funds among municipalities. As yet, no complete and comparable evaluation exists for the whole sector, but considerable progress is expected in the next few years. The Committee agrees that this type of allocative process is desirable in the present system, where the Province places an annual ceiling on the total funds available for road grants.

During the Committee's deliberations, the Ministry representative cited a number of advantages of the present road grant system. He noted that present policies for providing road subsidies to municipalities have been developed over many years, with input from the municipalities. He added that the system allows the Ministry to distribute funds to municipalities based on their particular road needs and their financial capacities. The present system enables the Ministry to monitor

the level of service on municipal roads and to ensure their integration within the overall transportation system throughout the province.

The present system is responsive to changing circumstances of road needs and reacts to special problems of individual municipalities, including jurisdictional shifts in responsibility. The need to review administrative policies and procedures is recognized. Furthermore, it should be noted that municipalities already establish their own priorities for their road programs within the allocation approved by the Ministry.

On the other hand, most of the municipal representatives and some non-municipal members advocated the elimination of road grants. They felt that local priorities should be established among as well as within broad spending functions. They observed that many municipalities already spend in excess of their "allocation spending", without assistance, therefore indicating that spending on roads is a municipally perceived high-priority item. They felt that the provincial interest could be adequately served through specification and enforcement of minimum standards.

The Committee considered the merits of both viewpoints and wishes to make a number of observations. First, the Committee notes that the road grants have developed over many years and in

close liaison with the municipal sector, and have resulted in an excellent overall municipal road system. At the same time, it is acknowledged that, of all programs, this grant has to be considered as a truly mature program. As such, it has enshrined throughout the sector a level of activity in this area which no longer can be attributed to the existence of specific grant programs.

Second, the Committee notes that the Ministry employs a variety of grant rates and rate ranges to achieve some form of equalization. From the preceding overview it will be obvious that this equalization system is selective and anomalous insofar as municipal status plays an important role in it. For instance, heavily populated urban municipalities like the Metro boroughs receive 80 per cent bridge grants, while the City of Toronto receives 50 per cent. Also, townships and upper-tier municipalities may receive up to 80 per cent on road spending, while urban municipalities receive a flat 50 per cent even though in isolated instances greater relative local burdens may be involved. More importantly, the present system is inconsistent with the Committee's basic premise that all equalization be achieved through an explicit unconditional grant program. On the basis of the above observations, the Committee could not support the status quo for road grants.

Having rejected the status quo, the Committee considered a number of alternatives. We considered a continuation of flat-rate conditional grants combined with procedural and administrative simplifications. The Committee recognized that a grant system along these lines would possibly be more consistent and less cumbersome to administer. It would also serve the Ministry's interest in ensuring adequate road standards and its ability to respond to changes in jurisdiction over roads between upper-and lower-tier local governments. This alternative meets the Committee's concern in respect of equalization. However, it fails to meet the principle that municipalities should be and are ready to establish their own priorities over a broad range of services, without the distorting influence of conditional grant programs.

The Committee considered the alternative of a block grant for roads, where the grant is not tied to local spending except for the requirement that the grant funds be spent on road activities. It would allow greater local freedom in setting priorities among programs, it would reduce the impact of changing Provincial priorities, and it would simplify administrative procedures. This alternative, however, has disadvantages for both the Province and the municipalities. Over time, some municipalities could receive rising entitlements while road deficiencies increase, thereby negating the impact of the grant in achieving Provincial service

level objectives and creating difficulties in determining the appropriate level of grants in future years.

Lastly, the Committee studied the possibility of replacing the road grants with unconditional grants. Under this arrangement, municipalities would acquire total freedom in priority setting and take a large step towards greater autonomy. All costs, time and effort associated with existing claim and audit procedures would disappear. In addition, it would encourage municipalities to engage more seriously in long-term planning. The Committee was impressed with the argument that, if meaningful gains are to be made in local autonomy and priority setting, local road spending, because of its significance in overall local spending, simply has to be one of the areas where such gains are indeed realized.

The Ministry is understandably concerned that, under this alternative, it will lose influence over the levels of service pertaining to local roads. The Committee, however, cannot ignore the points, frequently made: a) that this concern may prove unfounded in practice; and b) that poor road conditions are a legitimate local option. The Committee feels, however, that the Province should have control over the standards of service on those county, regional and major municipal roads which

are an integral part of the province-wide road system. Appropriate policies must be developed to ensure that this concern is adequately dealt with, in the absence of conditional grants.

A second disadvantage, raised by the Ministry, relates to the problem of translating present conditional transfers into unconditional grants. The Ministry is not satisfied that its present information system is sufficiently complete to provide a sound base on which to simulate unconditional replacement financing. In other words, the Ministry expects changes in its present allocation patterns, pending its future findings on local road needs where these have as yet not been completed. While an unconditional grants replacement system may not be directly sensitive to Ministry determined needs and allocations, it could be made directly sensitive to local action if related to local levies. Since the levy base for unconditional grants is inclusive of prior-year unconditional levy-based grants, a municipality with relatively high requirements will receive a relatively greater and growing unconditional "allocation" if it chooses to meet those requirements than if it does not.

While recognizing the validity in the arguments presented by the Ministry and acknowledging the recent improvements in the road grant system, the Committee believes that the time is appropriate for municipalities to assume full and unequivocal responsibility for

establishing their own priorities over a broad range of services. The road grant system, though increasingly based on road needs in a municipality, operates independently of all other municipal needs and priorities. Considering the magnitude of the grants as part of the total grant system, they must in the last resort be acknowledged as interfering with local responsibility and autonomy.

Accordingly, the Committee decided to make two primary recommendations:

THAT THE GRANTS FOR LOCAL ROADS AND BRIDGES 5.1
BE ELIMINATED AND THE FUNDS BE REALLOCATED THROUGH
UNCONDITIONAL GRANTS.

THAT THE MINISTRY DEVELOP APPROPRIATE 5.2
MECHANISMS AND INFORMATION SYSTEMS ENABLING IT TO
DISCHARGE ITS ULTIMATE RESPONSIBILITY TO ENSURE
MINIMUM STANDARDS IN RESPECT OF LOCAL ROADS THAT
ARE AN INTEGRAL PART OF THE PROVINCIAL ROAD NETWORK.

In making this recommendation, some Committee members expressed concern about the ability of small municipalities (i.e. those under 5,000 population) to assume total responsibility for roads and particularly bridges. As a Committee, we are

confident that all municipalities should be able to do so, especially if the Ministry continues to provide technical advice whenever it is needed.

On the other hand, we acknowledge that smaller municipalities may be reluctant to relinquish the financial security they perceive in the current road grant system. We therefore think that if there is generally strong opposition to Recommendation 5.1 from the smaller municipalities, the Province could consider two grant structures. Accordingly, if Recommendation 5.1 is not acceptable, the Committee provides the alternative recommendation:

THAT THE PROVINCE PROCEED WITH ELIMINATION 5.3
OF LOCAL ROAD AND BRIDGE GRANTS FOR METRO, ALL REGIONAL
GOVERNMENTS, AND ALL OTHER MUNICIPALITIES WITH A
POPULATION IN EXCESS OF 5,000, WHILE MAINTAINING THESE
GRANTS FOR THE REST OF THE MUNICIPAL SECTOR SUBJECT TO
RECOMMENDATION 5.4.

And, in order to standardize the rate of assistance to small municipalities, we also recommend:

THAT THE EXISTING SCHEDULE OF GRANT RATES FOR 5.4
LOCAL ROADS AND BRIDGES BE REPLACED BY A FLAT 50 PER
CENT GRANT FOR ALL RECIPIENTS.

Development Roads

Under certain circumstances, particular roads in townships and towns and villages in territorial districts may be designated as development roads. The Ministry decision to apply this designation depends on the extent to which it deems the road to be deficient, the existing local road tax effort, the potential of economic hardship for the community, and the normal subsidy rate of the municipality. Once a road is designated, the grant rate is generally raised to 100 per cent. Thus, the program effectively permits the existing equalization component of road grants to be enriched.

This program, therefore, is inconsistent with the Committee's view that the equalization components of all conditional grant programs should be eliminated. Accordingly, we recommend:

THAT THE DEVELOPMENT ROADS PROGRAM BE
ELIMINATED.

5.5

King's Highway Connecting Links

Routes connecting a King's Highway or serving as an extension of the King's Highway in an urban municipality may be designated as connecting links by the Lieutenant Governor-in-

Council. Routes are chosen by mutual agreement between the municipality and the Ministry. Designated connecting link routes remain under the jurisdiction and control of the municipality.

Maintenance of connecting links is carried out, as agreed, by either the municipality or the Ministry and costs are shared in accordance with the connecting link agreement. Where the municipality or the Ministry considers improvements to the road necessary, either party may present a proposal to the other and, subject to the terms of the agreement, payment is then shared by the second party.

Unlike development roads, the purpose of connecting link funding is not only to supplement the equalization component of normal road grants, but also to ensure that the provincial interest is served in providing adequate highway routes which run through municipalities (and frequently are the main street).

In regional governments and large urban municipalities, the spending on connecting links is modest relative to their normal road expenditures. Conversely, for smaller municipalities, expenditures on reconstruction of highway routes are generally costly in comparison to their normal road spending. The Committee assumes that a clear distinction can be made between

normal or routine maintenance and major reconstruction work on connecting links. On the basis of the general elimination of local road grants, the Committee recommends, therefore:

THAT THERE BE NO CONNECTING LINK AGREEMENTS 5.6
WITH MUNICIPALITIES WITH A POPULATION IN EXCESS OF
5,000 POPULATION, AND WHERE SUCH AGREEMENTS CURRENTLY
EXIST THEY BE TERMINATED.

THAT IN MUNICIPALITIES BELOW 5,000 POPULATION, 5.7
THE PROVINCE ASSUME FULL RESPONSIBILITY FOR CONSTRUCTION
WORK ON CONNECTING LINKS, IN FULL CONSULTATION AND AGREE-
MENT WITH THE MUNICIPALITIES CONCERNED; AND THAT THE
MUNICIPALITIES ASSUME FULL RESPONSIBILITY FOR MAINTENANCE
ON CONNECTING LINKS.

Unincorporated Areas

In unorganized areas, the Ministry arranges to undertake maintenance and construction work on public roads, where local roads boards, statute labour boards, or individuals or groups contribute varying percentages of the cost involved. Details of Provincial financing are provided in the Appendix. There do not appear to be any pressures for change; neither is there a logical alternative of unconditional financial aid available for these areas.

Various Studies

The Ministry contributes 75 per cent of the cost of a number of studies or reports that may be undertaken by municipalities, such as traffic operating studies, needs studies and transportation or planning studies. These studies are usually carried out by a technical advisory committee, with representation from the Ministry.

The Committee notes that a number of ministries are involved in this type of grant program. It is understandable that ministries like to encourage planning activities and informed decision making at the local level. However, it has been made clear to the Committee that municipalities seek greater autonomy and the Province is willing to provide them with it. The type of studies for planning purposes and better local decision making we are dealing with here and elsewhere in this Report should be a direct and ongoing municipal responsibility. They are an integral part of the process of local government. In fact, to have separate studies, encouraged through ministries like Housing, Environment, and Transportation and Communications, one runs the risk of an unintegrated policy approach to problems that are closely related to one another.

The Committee acknowledges that many municipalities benefit from Ministry participation through technical advisors and we would encourage its continuation. However, the initiative for special studies and their breadth of coverage should be a local responsibility as should the financing of such studies. The Committee recommends:

THAT THE GRANT PROGRAMS FOR TRAFFIC OPERATING STUDIES, NEEDS STUDIES AND TRANSPORTATION OR PLANNING STUDIES BE ELIMINATED, BUT THE MINISTRY CONTINUE TO SUPPLY TECHNICAL ADVISORY SERVICES WHEREVER REQUESTED OR NEEDED, 5.8

Railway Crossings

Grants are available from the federal government for at-grade crossing protection and for the construction of grade separations. At present, Provincial financial participation is the normal rate of road subsidy applied to net costs after federal assistance. The Committee is of the opinion that special treatment is not required, and that the previous recommendations should apply.

Access Roads to Provincial Parks

This grant program of the Ministry of Natural Resources is in addition to normal M.T.C. road grants, with total grants for reconstruction or construction of access roads to Provincial parks usually running as high as 100 per cent. The program was initiated in response to municipal concern about the high cost of upgrading or building access roads with a high level of non-area resident use.

We can see the merit of this grant when there was a high level of activity in the development of Provincial parks in previous decades. We point out, however, that this activity has slowed down considerably, unconditional grants have been introduced and enriched (including equalization payments), and municipalities near parks derive indirect benefits from the non-area residents. The Committee recommends, therefore:

THAT MAINTENANCE OF ACCESS ROADS TO PROVINCIAL PARKS BE A LOCAL RESPONSIBILITY. 5.9

THAT CONSTRUCTION OR RECONSTRUCTION OF ACCESS ROADS TO PROVINCIAL PARKS BE THE RESPONSIBILITY OF THE PROVINCE WITH THE SHARING OF COSTS WITH MUNICIPALITIES ON A NEGOTIATED BASIS. 5.10

Urban Expressway Agreements

Twenty years ago, the Province introduced urban expressway agreements to assist municipalities in providing extensions of King's Highway service on controlled access facilities through urban municipalities. These agreements reflected recognition of provincial significance of traffic movement in areas of continuous urban development. The cost-sharing arrangements usually involved 75 per cent Provincial financing and 25 per cent municipal financing. Agreements have been made with fourteen municipalities.

In 1975, the policy for urban expressway agreements was reviewed and distribution of responsibility between the two levels of government clarified as follows:

- a) urban expressways become the responsibility of the Province where King's Highway service is provided for traffic movement of provincial significance;
- b) where primary service is of a local nature, such as an access route into a municipality, the expressway is considered part of the municipal system and normal road grants apply.

The Committee recommends early termination of the existing agreements and speedy adoption of the new policy, even

if the normal road grants are eliminated. The Committee recommends, therefore:

THAT THE PROGRAM OF URBAN EXPRESSWAY AGREEMENTS BE ELIMINATED, AND EACH LEVEL OF GOVERNMENT ASSUME COMPLETE FINANCIAL RESPONSIBILITY FOR ITS OWN EXPRESSWAYS.

5.11

Public Transit Program

Provincial assistance for public transit was introduced in 1964. At that time, Metro Toronto became eligible for a 33 1/3 per cent grant on the T.T.C.'s east-west subway roadbed. In 1970, this capital grant was raised to 50 per cent. The following year the capital grant was extended to all subway construction costs.

From the mid 1940's until the late 1960's, transit systems in Ontario managed to maintain small operating surplus positions. Although ridership declined during this period as a result of increased personal affluence, preference for the comfort and convenience of the automobile and road subsidies from all levels of government, operating surpluses were achieved by adjustments in service and fares. In 1969-70, fare increases became insufficient to maintain this self-sustaining position and local municipalities were forced to finance transit deficits.

In 1971, the Province recognized that transit operations could not be expected to remain self-sufficient and instituted a subsidy of 50 per cent of the deficits of municipal transit operations. In late 1972, the Province announced major new initiatives in support of transit. Among these was the increase of the subway capital subsidy rate to 75 per cent and its extension to surface capital items such as buses, streetcars and related facilities.

The introduction of transit operating subsidies in 1971 was innovative to North America and a great deal of knowledge has been gained about the delicate balance which exists among fares, ridership and service levels. Until 1976, the subsidy on operating deficits remained at 50 per cent. However, the program was subjected to various ceiling constraints, the most severe of which was introduced for 1976 when the grant entitlement was subject to a 5 per cent growth constraint over the previous year.

In 1977, the basic structure of the operating subsidy was revised. The new formula emphasizes "efficiency" by varying the grant rate with the percentage of operating costs financed with fare box revenue. Under this arrangement, municipalities receive a percentage of their transit operating costs, which varies with size of municipality. Municipalities have to cover a prescribed target percentage of transit operating costs with

fare box revenue in order to receive a 50 per cent subsidy on their transit operating deficit. By exceeding their targets, municipalities can receive more than a 50 per cent subsidy on their transit deficits to a maximum of 75 per cent. Conversely, failure to reach their target from the fare box results in a Provincial subsidy of less than 50 per cent.

The Committee recognizes that transit capital and operating grants are not yet mature. The Committee did not feel it could consider the case for change particularly strong. The programs apply to a limited number of municipalities in the province, which suggests that a broad-brush approach as in other programs would be inappropriate.

Nevertheless, the Committee has some reservations about the present approach. The Committee shares the concern of the Henderson Committee about grant rates of 75 per cent. This high rate of grant induces a low level of local accountability. In addition, the inclusion of surface vehicles in the capital program may lead to low and wasteful maintenance standards. This problem is modified to some degree by justification requirements which have to be satisfied by applicants under the surface capital program. The Committee also notes the need for greater stability in the operating grants after five years of ceiling changes in

this program and the concomitant uncertainties so created. There is nothing wrong in raising the degree of local responsibility and accountability as long as it is fostered in a climate of reasonable financial predictability.

In view of the above, we recommend:

THAT THE PROVINCE MAINTAIN GREATER STABILITY 5.12
IN THE TRANSIT OPERATING GRANT PROGRAM.

THAT THE PROVINCE MAINTAIN THE EXISTING 5.13
TRANSIT CAPITAL GRANT FOR A PERIOD NOT TO EXCEED 5
YEARS, AT WHICH TIME A COMPLETE REVIEW OF THE CAPITAL
AND OPERATING GRANT PROGRAMS BE UNDERTAKEN.

Apart from capital and operating transit grants, the Province also provides funding for transit studies with a maximum grant rate of 75 per cent. As mentioned earlier, the Committee does not favour this type of grant program and, therefore, recommends:

THAT THE PROVINCIAL PROGRAM OF ASSISTANCE 5.14
TOWARDS THE COST OF TRANSIT STUDIES BE ELIMINATED BUT
THE MINISTRY CONTINUE TO SUPPLY TECHNICAL ADVISORY
SERVICES WHEREVER REQUESTED OR NEEDED.

The final part of the transit program provides for the development and demonstration of innovative technology and practices intended to assist Ontario municipalities and the transit industry to investigate and adopt techniques which improve the effectiveness of providing service. A variety of projects have been identified through contact with the industry at large and have been initiated with selected municipalities. These range from studies into management and operations practices and techniques (the so-called soft area), to studies requiring hardware and resulting in field trials.

Initially, projects were fully funded by the Province. Presently, however, municipalities generally contribute 20 to 30 per cent of the total costs, depending on the nature of the project, while some projects also receive federal assistance. The Committee noted that demonstration projects are for the benefit of all municipalities and consequently it would not be equitable for a few selected municipalities to carry the full financial burden of innovative projects. The Committee, therefore, recommends:

THAT THE CURRENT ARRANGEMENTS FOR DEMONSTRATION PROJECTS BE CONTINUED. 5.15

Airports

The Committee noted that subsidies for municipal airport development and maintenance are relatively recent and are in response to a Provincially identified need to stimulate development in the northern and eastern areas of the province. It is recognized that the federal government maintains a Community Airport Assistance Program but that the Province believes this is inadequately funded to meet Ontario's priorities. The subsidies are stimulative in nature and have benefits beyond individual municipalities. We therefore recommend:

THAT THE PROVINCE MAINTAIN THE EXISTING
AIRPORT DEVELOPMENT SUBSIDY PROGRAMS FOR A PERIOD
NOT TO EXCEED 5 YEARS AND THAT A COMPLETE REVIEW,
TAKING INTO ACCOUNT THE ROLE OF THE FEDERAL GOVERN-
MENT, BE UNDERTAKEN PRIOR TO THAT TIME.

5.16

CHAPTER 6

COMMUNITY AND RECREATION

In this chapter we discuss library grants, programs of recreation, museum grants, community recreation centres, elderly persons' centres, and parks assistance. Most of these programs were introduced shortly after the Second World War when society became more concerned with the pleasant things in life. The oldest program was the community recreation centres grant program which was initiated after World War I.

The Committee was aware of the fact that, in broad cultural endeavours, the Province has a major supportive and catalytic role. The Committee was of the opinion that the Province is in a better position to carry out this function than the municipal sector which generally addresses itself to local concerns and responsibilities. This is not to ignore the fact that some municipalities play a sizeable role in supporting cultural activities as well. In contrast, there is evidence that the reverse situation applies in respect of community recreation programming. It has become clear in recent years that local priority given to this area exceeds that of the Province.

Library Grants Program

The program of Provincial assistance to library

boards was administered by the Ministry of Education from 1946 to 1972 when it was transferred to the Ministry of Colleges and Universities. In 1975 the program was transferred to the Ministry of Culture and Recreation.

There exist two separate basic library support programs; one for municipal library boards and one for regional library boards. The regional library boards, which are financed and operated by the Province,¹ provide coordinating and advisory services to local boards such as reference collections, inter-library loans, centralized technical services, advisory services, adult education programs, and training programs for library staff. Since their sources of revenue comprise fees for services rendered and Provincial grants, they are financially independent of local council support. In this sense they are effectively a Ministry service. We are convinced that this regional system is probably indispensable for the functions it performs. We also recognize the merits of a number of northern regional boards

1. The Metropolitan Toronto Library Board is the only regional board which is not financed by the Province.

who provide services in unorganized territories. We are less certain about the merits of the existing boundary lines of the 14 regional boards and suggest that they be reviewed. The Committee concluded that these boards essentially serve a Provincial purpose and therefore do not need to be dealt with in the Committee's recommendations.

The Province currently provides basic grants of \$1.80 per capita to local library boards. At present, there are 446 local library boards, of which 17 are county boards and 30 Indian band libraries. In addition to their per capita grants, county boards receive \$15,000 to compensate for small population bases and sparsity. Almost 200 of the 446 library boards are somewhat different in that they purchase their services from either school boards or operating library boards. Although, significant voluntary support is provided by the community, such non-operating boards tend to receive only limited local financial support which falls short of Provincial grants. For all boards, however, Provincial grants finance approximately 25 per cent of total board spending. Obviously, local councils are a major source of library financing.

In the 1974 Ontario Budget, the Government proposed to deconditionalize library grants. This proposal prompted a

highly vocal and negative response from local libraries and their associations. They argued that local councils attached a low priority to library activities and would reduce their financial support if specific Provincial grants to library boards were terminated. The evidence suggests that this would not likely be the case. As noted earlier the bulk of library financing presently comes from local councils rather than the Province despite the fact that library boards do not have compulsory requisitioning powers. Furthermore, we observe that, in recent years, local council contributions to library boards have increased at a faster rate than Provincial assistance.

At the same time it was the Committee's opinion that municipalities view the provision of library services as their responsibility. We therefore recommend:

THAT THE GRANTS TO MUNICIPAL LIBRARY BOARDS BE ELIMINATED. 6.1

THAT IMMEDIATE STEPS BE TAKEN TO RE-ASSIGN THE RESPONSIBILITY FOR LIBRARY SERVICES FROM MUNICIPAL LIBRARY BOARDS TO MUNICIPALITIES. 6.2

Programs of Recreation (Regulation 200)

This program has existed since 1945 and originated in the Department of Education under whose Act it was Regulation 200. It was moved to the Ministry of Community and Social Services in 1972 and in 1975 was transferred to the newly created Ministry of Culture and Recreation. Over its first two decades, this program was amended many times. Presently, the bulk of the grant amounts to one-third the salaries of recreation directors and assistant recreation directors subject to annual maxima which vary with the quality of certificates which they hold. Certificates are either type A or B, and either permanent or interim. The maximum grant ranges from \$600 to \$2,500 per annum. The grant entitlement also is determined by one-third of the salaries of other specified staff (\$500 maximum), plus 25 per cent of maintenance and operating costs (maximum \$1,000). Finally, there exists an aggregate maximum which varies by size of municipality. The highest any municipality can receive is \$15,000 per year. Special arrangements exist for unorganized territories and Indian bands. The total grants to municipalities under this program presently amount to \$2.3 million per year.

The program is intended to stimulate leadership in

municipal recreation and provide a communications channel with municipalities. This permits the Ministry to promote its objectives, while providing consulting services in recreation development and facilities, adult education, fitness and sports. The Ministry recognizes the need to change this program, and plans to improve it by emphasizing assistance to small municipalities.

The Committee, after giving consideration to the case of small municipalities, still could find little merit in this program's continuation. Small as well as large municipalities have to make legitimate choices in respect of local services they desire and which suit their circumstances. And, relative fiscal incapacity, as we have mentioned previously, needs to be addressed separately.

Therefore, the Committee recommends:

THAT GRANTS FOR PROGRAMS OF RECREATION
(REG. 200) BE ELIMINATED.

6.3

Community Recreation Centres

When established in 1919, this program permitted payment of 25 per cent of the cost of a community hall (centre) or athletic field to a maximum of \$2,000 per project. In 1948, the maximum was raised to \$5,000, and in 1949 to \$10,000. In

the latter year, eligibility was extended to include skating arenas and outdoor rinks. Indoor and outdoor swimming pools were added in 1951.

In 1975 the program was transferred to the Ministry of Culture and Recreation. The maximum project support was raised from \$10,000 to \$75,000, with provision for up to \$150,000 where the Minister deems it appropriate. Also, new types of projects, gymnasias, tennis courts, ski hills, fitness trails, and cultural centres became eligible for assistance.

At the present time the grant is available to municipalities, school boards in unorganized territories, Indian bands, and boards of education in organized areas, the latter only in respect of previously established centres. The grant is a capital grant and applies to the erection, alteration, extension, acquisition, or renovation of facilities. The formula for the grants to Indian bands or unorganized areas is more flexible and usually more generous. Also, where special facilities are added to a project to accommodate the handicapped, the Ministry may pay the full extra cost.

However, the grant does have a number of drawbacks: project eligibility restrictions favour some projects over

others (this problem has been reduced but not eliminated in 1975); and, the program does not appear sensitive in its administration to variations in need for facilities among municipalities as it is operated for the most part on a first-come-first-assisted basis.

The Committee had some difficulty in addressing the question of whether this grant should be continued. On the one hand the substantial changes made in 1975 suggest that the present program is not yet mature and should be retained. On the other hand the Committee notes that community centres appear to be a high local priority even in the absence of enriched grant support. For example, prior to 1975, local spending on community centres was very high. This important local priority creates some unease on our part about whether the need for present grants is genuine. More importantly, the Committee was of the opinion that, in the provision of community recreation services, it would be appropriate for municipalities to decide for themselves what resources to devote and what activities to emphasize without direct Provincial incentives or conditions. The Committee therefore recommends:

THAT THE COMMUNITY RECREATION CENTRES CAPITAL
GRANT PROGRAM BE ELIMINATED AND ANY OUTSTANDING
COMMITMENTS BE HONoured UNTIL MARCH 31, 1981.

6.4

Elderly Persons' Centres

Since 1961, the Ministry of Community and Social Services has provided assistance for elderly persons' centres which provide social and recreational programs, on condition that certain criteria are met. Non-municipal centres must be run by a charitable organization, must be Provincially approved, and must receive financial assistance from local government prior to being eligible for Provincial grants. A growing number of centres have become eligible over the years, but a large and unknown number of organizations do not receive Provincial assistance. In addition to capital and operating grants from the Province, centres may qualify for special grants on certain specific services, such as meals-on-wheels, invalid visitation and care (annual maximum per centre of \$15,000 in special grants).

The operating subsidy to a municipality which operates a centre amounts to 50 per cent of the net operating cost to a maximum of \$15,000 per year. In 1975, municipal centres received nearly \$173,000 in operating grants from the Ministry. A non-profit corporation must receive at least 20 per cent of its expenses from the municipality in order to be eligible for a Provincial grant on approved spending. In 1975, non-profit

corporations received approximately \$500,000 from the Ministry in operating support. Most of these centres are in Metro Toronto.

The capital grant for these centres is 30 per cent of the capital cost involved in erecting, extending, altering, renovating or acquiring a building or the furnishing and equipping of a centre. Approved non-profit corporations have to receive at least 20 per cent in municipal assistance.

The Committee discusses these grants in this Chapter rather than that on social services, as it feels this program is really a recreation centre type of program, though geared to a limited clientele. In other words, these grants fall into a similar category as Community Recreation Centres. The Committee therefore recommends:

THAT THE GRANTS TO ELDERLY PERSONS' CENTRES
BE ELIMINATED AND ANY OUTSTANDING CAPITAL COMMITMENTS
BE HONoured UNTIL MARCH 31, 1981.

6.5

Museum Grants

This program was established and administered by the Ministry of Education in 1953, transferred to Travel and Publicity in 1958, and in 1973 became the responsibility of the Ministry of Colleges and Universities. Finally it was transferred

to the Ministry of Culture and Recreation in 1975. During its first two decades, very little development occurred in this program. However, once it became part of Culture and Recreation, the grant program was significantly enriched for two consecutive years. The Ministry still considers the program to be in the developmental stage.

The program deals with almost 200 museums, involving those run by municipalities, library boards, conservation authorities, Indian band councils, and non-profit corporations. Many of these are small operations, e.g. some 90 museums operate on an annual income of less than \$5,000. In addition, but outside the grant program, there are many other museums run privately by universities, by a number of Provincial ministries, and by the federal government.

The program entails three separate grant programs: maintenance grants, establishment grants, and development grants. The establishment grant can only be received once and equals 50 per cent of establishment costs, after deducting receipts from other Provincial or federal sources, to a maximum of \$5,000. The development grant can only be received at five-year intervals and equals 50 per cent of such costs to a maximum of \$5,000 as well. Activity under the establishment and development grant

programs is limited, while the maintenance grant accounts for the major portion of transfers under this program.

Maintenance grant formulae vary with numbers of hours or number of days a museum is open in a year, the prior year gross receipts (subject to a dollar maximum), plus curator salaries (subject to a separate dollar maximum). Starting in 1977, multi-purpose museums also became eligible for a new grant of 10 per cent of net receipts over \$60,000 with a separate grant maximum of \$60,000. Obviously, given the small operation of most local museums, the Ministry's advisory and technical services are important to most local museums as they are not in a position to afford their own special staff; nor would they need special staff on a permanent basis. The Ministry also plays an important role in coordinating such activities as the sharing of exhibits and collections among museums across the province.

The museum grants have drawbacks similar to those characterizing the Programs of Recreation grant. We understand that the Ministry is in the process of reviewing the Province's policy in respect of museums generally. However, as we noted above, the Ministry, prior to a rationalization of this grant program, added a new feature to aid multi-purpose museums whereby it pays 10 per cent of net receipts over \$60,000. We realize this

can only benefit a limited number of museums, and probably very few municipal museums.

It should be clear from the foregoing that we do not favour the status quo, neither do we see any point in a block grant. Further, we note the limited amount of funds involved, which most municipalities can afford within their total budget. Also, we believe that municipal museums, though important in a province-wide sense as preservers of our cultural heritage and places of interest to future generations, also have as a rule a strong local flavour and interest. We therefore recommend:

THAT GRANTS TO MUSEUMS OWNED BY MUNICIPALITIES 6.6
OR MUNICIPAL AGENCIES BE ELIMINATED.

THAT THE MINISTRY CONTINUE ITS SUPPORT ROLE 6.7
TO MUSEUMS IN THE FORM OF ADVISORY, TECHNICAL AND
COORDINATING SERVICES.

THAT THE MINISTRY CONSIDER SPECIAL FINANCIAL 6.8
ASSISTANCE TO MUNICIPAL MUSEUMS ONLY WHERE THE
PROVINCE WANTS TO PROMOTE CERTAIN SPECIFIC CREATIVE
ACTIVITIES.

Parks Assistance

This program, dating back to 1960, and operated by the Ministry of Natural Resources, assists municipalities in the acquisition and development of lands as tent-and-trailer parks and in the development of natural beaches for recreational use.² Since 1966, the grant ceiling for any park has been \$100,000, inclusive of a \$25,000 maximum for land acquisition. Below these maxima, the effective grant rate is 50 per cent of total cost.

A number of procedures have to be followed within the approval process and these are described in detail in the Appendix. It is also interesting to note that the Ministry of Natural Resources acts as the Province's agent to ensure that relevant stipulations, standards and regulations of four other ministries are met. Once approved, it may take as long as ten years or more for a project to use up the full, yet limited Provincial grant funds. The total annual allocation of funds to this program has been around \$500,000 in recent years, and during the first 16 years of this program about \$5 million in total has been approved.

2. Certain facilities put up in parks, such as ball fields, tennis courts and swimming pools, are separately eligible for assistance from the Ministry of Culture and Recreation under the Community Recreation Centres program.

In the Committee's view, this program is too small to effectively meet Provincial or municipal objectives; nor can it be expected to reduce existing "inequities" in outdoor recreation opportunities. Moreover, it is not sufficiently broad to respond to variations in local preferences for such items as boating facilities, hiking and snowmobile trails or sanctuaries. The Committee also notes that, in spite of the fact that municipal recreation spending has soared in recent years, municipalities have been slow in using up their approvals under this program. The Committee, therefore, questions the merits of this grant program.

As a Committee, we could agree that recreation has grown into a well-entrenched, primarily local responsibility of high priority notwithstanding low levels of Provincial assistance. In terms of benefit, recreation is predominantly local in significance, either for municipal residents or as tourist attractions with indirect local benefits.

Nevertheless, the Committee was troubled by one aspect which this program addresses, though inadequately, and which is partly met by the conservation authorities. The major urban areas may have a need for outdoor recreational facilities, many of which can only be met beyond their own boundaries. Communities

outside such urban areas may well be reluctant to incur the cost and inconvenience of these amenities. In any event, it remains obvious that The Parks Assistance Act is not the answer. The Committee draws attention to the previous discussion in Chapter 4 for a review of jurisdictional responsibility for outdoor recreational facilities in order to delineate Provincial and municipal responsibilities.

The Committee examined and discussed a number of alternatives to the status quo for this program including the elimination of the grant for large and regional municipalities while raising the ceilings for the others; broadening the scope and funding of the program; complete elimination; and block funding for the entire recreation function.

Having considered these alternatives, we recommend:

THAT THE PARKS ASSISTANCE ACT BE REPEALED
AND OUTSTANDING COMMITMENTS BE HONoured UNTIL
MARCH 31, 1981.

6.9

CHAPTER 7

HEALTH

The Committee found it difficult to discuss the Province's grants in respect of the various health services for which local governments are responsible because municipal programs in this area are inextricably linked with those of the Provincial Government. We therefore felt compelled to make some observations in this Chapter on the whole health delivery system in the province — although some may view such consideration as stretching the Committee's terms of reference.

Before making these observations, we review the present structure of Provincial-municipal health grants. Under The Public Health Act, municipalities are required to have their own board of health or to form a health unit with other municipalities to provide full-time public health services. Most of the Province's financial assistance to the local sector is directed to the activities of local boards of health and health units. A much smaller amount of assistance is provided for ambulance and home care services, the control of outbreaks of diseases, and venereal disease control. The latter services may be provided directly by municipalities or delivery agencies other than health units.

Local Health Units

Basic services provided by health units include post-institutional visitation by nurses, food sanitation monitoring, recreational sanitation, water supply testing, rabies control, vaccinations, family planning, and medical and dental inspections in schools, etc. In addition to these, some health units are involved in the administration of special programs such as home care and venereal disease control. The financial arrangements relating to these special programs are discussed later in this chapter.

Every municipality in Ontario must provide public health services through one of three mechanisms. The Public Health Act requires every municipality to establish a local board of health except where a health unit is established. A county council can establish and declare the county to be a (county) health unit. In addition, Regulation 711 of the Act specifies those groups of municipalities that comprise district health units. In this chapter the term health unit will be treated as a generic one that incorporates all three mechanisms, namely local boards of health, county health units, and district health units.

At present there are 43 health units in the province of which 6 are local boards of health, 6 are county health units, and 31 are district health units. They receive grants from the Ministry of Health of 25 per cent, 50 per cent and 75 per cent of eligible operating expenses respectively. These varying grant rates were designed to encourage municipalities to set up health units covering large areas comprising several municipalities in order that a full range of services could be provided in the most economical way. Because they have not amalgamated into a region-wide health unit, the area municipalities of Metropolitan Toronto receive a 25 per cent grant. Most of the municipalities in the province are in district health units which are funded at the 75 per cent level.

It should be noted, however, that the degree of assistance for a few of the basic services of a health unit vary from the foregoing rates. For example, health units are reimbursed for 100 per cent of deemed family planning costs. Also they are reimbursed through user charges and payments from the Ministry of the Environment for the costs which they incur in conducting sewerage inspections.

Under Part VII of The Environmental Protection Act, health units that enter into an agreement with the Ministry

of the Environment (MOE) are expected to recover the expenses they incur in performing environmental inspections. Property owners wishing to install private systems must apply to the health unit for an inspection. For systems with a capacity of 4,500 litres per day the health unit charges a minimum user fee of \$30 and receives an MOE grant of \$30.50. For each rejected application the MOE grant is \$60.50 and no fee is imposed. For larger systems the user fee is \$80 and the MOE grant is \$41.00.

Health units also perform inspections for proposed subdivisions, severances, minor variances, grants of easement, condominiums and lot line adjustments. For these inspections the health unit receives an MOE grant of \$25 per lot. The MOE also provides a supplementary travel grant to the health unit where the average distance from all inspection sites to the nearest health unit office exceeds 20 miles. Total MOE grants for health unit inspection activities are budgeted at \$1.8 million in 1977-78.

Capital assistance to health units is available separately for the construction of or modifications and additions to community health facilities at a rate of two-thirds of eligible costs. Total Provincial assistance has been limited during the past five years. In 1977-78 the Province's total grants were budgeted at \$240,000.

In summary, health units perform a large number of activities that form an integral part of the Province's overall health care system. These activities are supported by a diversity of financial arrangements involving different operating grant rates for different types of units and services and a different grant rate for capital as opposed to operating costs. At the same time the total financial demands of health units on municipalities represent a small proportion (i.e. less than 2 per cent) of municipal taxation.

Home Care

This program is designed to reduce demands for institutional health care. For example, it encourages hospital patients to give up their beds earlier than they would in the absence of home care and in some cases avoids the need for hospitalization. The principal services offered under this program are nursing, drugs, dressings, homemaking and physiotherapy. Depending on community needs and available resources, a home care program may also provide such services as occupational therapy, social work, speech therapy, laboratory and diagnostic services, and transportation for patients who must attend hospitals or clinics for treatment.

There are thirty-eight home care programs operating throughout Ontario. Thirty of these are operated by health units, four by the Victorian Order of Nurses, three by active treatment hospitals, and one by Metropolitan Toronto Home Care Incorporated. Each agency is responsible for the financial management and operation of its program, but most purchase their nursing services from the Victorian Order of Nurses (VON). The Ministry of Health reimburses the agencies for the total cost of the operation of this program.

Venereal Disease Control

There are thirty V.D. clinics throughout the province - fourteen in hospitals and sixteen in health units. All clinics provide free services. A health unit is required to provide adequate staff to operate its clinic and to appoint a physician who is responsible for the examination, treatment, supervision and after-care of patients.

The Province pays the health units \$7.50 per reported visit as an approximation of actual costs. As a rule this is more than adequate, but any deficit is generally eligible for the subsidy within the approved operating budget of the health unit. The Province also pays either the full cost for drugs or supplies them directly free of charge. Physician and laboratory

services are recovered from OHIP. Hospital-based V.D. clinics are financed separately by the Province as part of the normal hospital budget.

The costs of V.D. clinics in health units and hospitals represent a small fraction of the total costs of V.D. control in Ontario. For example, in 1975-76, total costs of V.D.-related health services have been estimated to have exceeded \$12 million; health units and hospital clinics accounted for approximately 6 per cent of this amount.

Outbreaks of Diseases

Under this program the Ministry provides free vaccines and biologicals for the immunization of school children and others most likely to need protection against measles, rubella, polio, diphtheria, whooping cough, tetanus, etc. These vaccines are provided to private physicians as well as to health units. Other vaccines are made available in response to unusual circumstances such as the swine flu program of 1976.

Ambulance Services

Ambulance services are provided by hospitals, the private sector, municipalities, volunteers, and the Ministry of

Health. Since 1966, the Province has set out standards for the staffing, equipment and performance of ambulance operators.

All ambulance services are subject to annual Provincial approval of spending estimates within which they are assured of 100 per cent reimbursement by the Ministry of Health. The Ministry also assumes responsibility for obtaining and equipping ambulances for all units throughout Ontario, except Metro Toronto which has been authorized to handle these matters on its own. The Province has centralized purchasing and placement of vehicles to allow operators to realize the increased benefits of volume purchasing. As well, the resulting standardization of equipment ensures that ambulances can be moved throughout the Province to meet local needs, without staff having to go through an equipment familiarization period.

The Province makes special payments to ambulance services to cover the cost of transporting patients by air and to pay for helicopter service between Moosonee and Moose Factory Hospital during spring and fall. As well it covers the costs of transporting patients outside the Province.

The Committee's Approach

The programs described above are essential components of

the total health care system and, in varying degrees, relate directly to other major health activities for which municipalities are not responsible. Within the field of health care, the local health activities represent a very small part of the Provincial health system. For example, in 1977-78, the total estimated transfers of \$70.6 million to municipalities represent less than two per cent of the budgeted spending of the Ministry of Health.

The total health delivery system is composed of numerous semi-autonomous components (e.g. hospitals, physicians, nursing homes, local health units) which have developed independently at their own respective rates. While each component continues to meet the need for its services as it perceives them, co-ordination of overall service delivery is lacking. This lack of co-ordination is also manifest between program areas such as homes for the aged and homemakers' and nurses' services in which the Ministries of Health and Community and Social Services have a mutual interest. These programs are discussed in the following chapter.

Given the limited financial resources of the Provincial Government and its assumption of the lion's share of the financing of the health services, it is essential to make the system less expensive. This can be most readily achieved through coordinating the various components of the system so as to avoid duplication

of services, substituting low-cost for high-cost activities, and shifting the emphasis to preventive health activities which are less costly in the long run. The termination of traditional federal-provincial cost-sharing programs should make such rationalization easier.

Where then, does the Province come into the picture vis à vis the municipalities? The dominant position of the Province in the health activities at the local level would at first sight suggest a Provincial takeover and complete centralization. It can be argued that centralized control has the potential for realizing greater coordination of all health services.

On the one hand, the Committee is sceptical about the realism of this approach. The greater "bigness" implied in centralization involves the risks of magnifying the consequences of bad decisions and developing an unwieldy administration. Moreover, the Ministry may be less able to recognize the particular needs of individual communities than municipalities themselves.

On the other hand, some of these disadvantages can be overcome. Centralization of control need not be synonymous with

centralization of administration. For example, local health units could act as agents for the administration of Provincially-determined standards if the Ministry were willing to pay them for the full costs of the services rendered on its behalf. Moreover, centralization of control need not result in a failure to recognize the particular needs of individual communities — especially if the Ministry relies on its recently established network of District Health Councils. Indeed, the District Health Council has been designed to determine the needs of the communities within its area and provide advice to the Minister on local priorities.

On balance the Committee feels that, under these circumstances, the best way to quickly secure a coordination of the components of the health system is to centralize the responsibility for financing and policy development of health care while retaining a decentralized administrative apparatus at the local level. This can be obtained if the Province establishes service standards and pays the full costs to the local bodies that administer those standards. Accordingly the committee recommends:

THAT THE PROVINCE PAY THE FULL COSTS OF
FINANCING HEALTH SERVICES ADMINISTERED BY LOCAL GOVERN-
MENTS SUBJECT TO APPROVED ANNUAL LEVELS OF EXPENDITURE
BASED ON PROVINCIAL STANDARDS.

7.1

Having made this recommendation, the Committee remains sceptical of the benefits of these arrangements for the long term. Once the Ministry has rationalized the system and secured the required economies, more emphasis in the health system should be attached to local needs and priorities. In this circumstance, the local assumption of overall responsibility for the delivery of community-oriented health services will become more attractive. The case for this devolution of responsibility is all the more compelling if the passage of time tends to erode the will of District Health Councils to put local interests ahead of those of the Minister.

The Committee in its deliberations did not ignore the question of hospital services. In considering the level of government most suitable for the delivery of health services, thought was given to transferring hospital financing to the municipal level. However, the sheer magnitude of such a transfer at this time would be well beyond the financial and administrative capacity of most municipalities. In addition the Committee is of the opinion that rationalization of the present delivery system of all health services can be best carried out at the Provincial level and only then should consideration be given to a possible transfer of responsibility to the municipal level. The Committee there-

fore recommends:

THAT, ONCE A COORDINATED SYSTEM IS ACHIEVED,
THE RESPONSIBILITY FOR COMMUNITY-ORIENTED HEALTH
SERVICES SHOULD BE DECENTRALIZED.

7.2

We would hope that the Ministry would pursue, as a main priority, the shift from high-cost services to low-cost alternatives within a specified time frame to coordinate the overall health care system. The more quickly this coordination is achieved the sooner our recommendation can be implemented.

In preparation for the decentralization of responsibility, we believe that the Ministry should proceed to eliminate the special purpose bodies that presently are responsible for local health services. This procedure will set the stage for more local accountability when Recommendation 7.2 is implemented in the future. Accordingly, we recommend:

THAT BOARDS OF HEALTH AS SPECIAL PURPOSE
BODIES BE ELIMINATED AND THE FUNCTION BECOME A DIRECT
RESPONSIBILITY OF UPPER-TIER COUNCILS.

7.3

There is one administrative problem that will be created by this recommendation where more than one municipality is presently

served by a Board of Health. In this situation arrangements will have to be made to designate one municipality to perform services on behalf of the other municipalities and — as the case may be — unorganized territories in the former health unit. This will be necessary to retain the economies of scale that are realized under the present structure.

CHAPTER 8

INCOME MAINTENANCE AND SOCIAL SERVICES

This Chapter covers two broad areas of municipal involvement:

- . General Welfare Assistance, which is an income maintenance program; and
- . Social Services, which include direct services to individuals, groups and communities in order to assist, encourage, support and protect persons in the community.

General Welfare Assistance and the majority of municipal social services are currently cost shared under the federal Canada Assistance Plan (CAP).

General Welfare Assistance

At one time, income maintenance for all persons in need was a municipal responsibility. Over the years, however, responsibility for various groups of needy persons has gradually been taken over by more senior levels of government. For example, at the present time, the federal government provides for aged persons through the Old Age Security (OAS) program and for the majority of the unemployed through Unemployment Insurance (U.I.). Similarly, the Province now provides long-term assistance to

persons who are either unable to work (e.g. the disabled, the blind, and medically unemployable persons) or to those not expected to work (e.g. sole support mothers) through GAINS-D and Family Benefits.

Today, General Welfare Assistance (GWA) has become primarily a residual income maintenance program offering short-term assistance to persons who:

- . are ineligible for a program offered by a more senior level of government; or
- . have an application pending for support from one of those programs.

In addition, GWA provides emergency assistance for any eligible person in need.

There are basically five cost-shared components under this program: General Assistance, Special Assistance, Supplementary Aid, Work Activity Projects and Municipal Administration Costs. All of these are shared by the federal government under CAP at the rate of 50 per cent of total expenditures. However, Provincial subsidies of municipal expenditures fall into two categories:

- . 80% cost sharing: (i.e. 50% federal, 30% Provincial, 20% municipal) General Assistance¹ and Supplementary Aid;

1. In cases where General Assistance is paid to those not meeting residency requirements or to those in unorganized

- . 50% cost sharing: (i.e. 50% Federal, 50% municipal)

Special Assistance and Municipal Administration.

The Committee believes that there is sufficient reason to question the role of municipalities in this area. Since the turn of the century, income maintenance initiatives (i.e. OAS, UIC, FBA, etc.) by senior levels of government have left municipalities with a residual role in the income maintenance area. Given this broad historical development, the Committee concluded after considerable discussion, that it was time for the final phase of this evolution to take place - the elimination of the residual municipal role in the area of income maintenance.

It is generally recognized that the federal government has the primary responsibility, and the fiscal tools, to maintain and foster a healthy economy and to maintain an acceptable low level of unemployment. In comparison, the provinces play a secondary role and municipalities are not expected to play any role. Furthermore, with a comprehensive Unemployment Insurance system, which has recently been re-integrated with a nation-wide network of Manpower Centres, providing a full range of vocational training and job placement services, the federal government is best equipped to deal with the problems of unemployment and the unemployed. In this context, it would seem irrational that the unemployed most in need should be the responsibility of municipalities which

territories, the federal government contributes 50 per cent and the balance is contributed by the Province leaving no municipal financial responsibility.

have neither the finances nor the programs to deal with unemployment. By the same token, it appears to be unfair and wasteful to require an unemployed person to deal with two levels of government: the municipality for income support, and the federal government for job training and/or placement services.

Accordingly, the Committee recommends:

THAT MUNICIPALITIES BE RELIEVED OF FINANCIAL AND 8.1
ADMINISTRATIVE RESPONSIBILITY FOR EMPLOYABLE PERSONS,
AND THAT THIS RESPONSIBILITY BE TRANSFERRED TO THE
FEDERAL GOVERNMENT TO BE FULLY INTEGRATED WITH THE
UNEMPLOYMENT INSURANCE AND MANPOWER PROGRAMS.

Similar arguments can be made for Provincial rationalization of the remainder of the GWA caseload (unemployable persons). While this issue is not as clear-cut because of the municipal provision of emergency assistance, the Committee feels that the situation should be rigorously reviewed.

Several administrative alternatives could be pursued during this review, including direct Provincial operation and purchase of service arrangements between the Province and municipalities for municipal delivery of certain services.

The Committee therefore further recommends:

THAT THE PROVINCE RATIONALIZE FINANCIAL AND/
OR ADMINISTRATIVE RESPONSIBILITY FOR THE REMAINDER OF
THE GWA CASELOAD (UNEMPLOYABLE PERSONS).

8.2

Options which could be considered in line with this
recommendation are:

- . that the Province assume full financial and
administrative responsibility;
- . that the Province assume financial responsi-
bility but leave direct administrative responsi-
bility to the municipalities; and
- . that the Province assume financial responsi-
bility and delegate administrative responsi-
bility on a purchase of service basis to
municipalities where appropriate.

The Committee's Recommendation 8.1 assumes that the
federal government would be receptive to our preferred approach.
The change would undoubtedly involve difficult negotiations and
might have to be acceptable to the other nine provinces as well.
To be realistic, therefore, we have to allow for the distinct
possibility that our primary recommendation will not be feasible
at this time. Neither do we support the continuation of the
present system of different grant rates within the general welfare

assistance area. As an alternative to Recommendation 8.1, therefore, the Committee recommends:

THAT THE PROVINCE RATIONALIZE ITS CURRENT
SUPPORT FOR ALL PROGRAM COMPONENTS UNDER THE GENERAL
WELFARE ASSISTANCE ACT AND ADOPT A 50 PER CENT
REIMBURSEMENT RATE ON EXPENDITURES NET OF FEDERAL
CONTRIBUTIONS.

8.3

Since the federal government contributes a constant 50 per cent of total costs, a Provincial contribution of 50 per cent of the balance would result in a total reimbursement to the municipalities of 75 per cent.

Social Services

At present the majority of municipal social services programs are cost shared by the federal government under the Canada Assistance Plan (CAP). The restrictions imposed by this conditional cost-sharing legislation clearly constrains provincial-municipal funding arrangements.

The Committee understands that the federal government was going to originally replace CAP with another conditional cost-sharing arrangement. Subsequently, the federal government extended an offer to the provinces to block fund social services. While it is not clear as to whether this block funding offer is going

to remain on the table, the Committee has proceeded to develop a scenario for reforms in the social services area on the assumption that a federal block funding offer will be implemented. The Committee believes that it would be preferable if a three-level conditional cost-sharing system could be avoided, especially if it were even more stringent than The Canada Assistance Plan. Such a system would almost inevitably postpone desirable disentanglement such as recently achieved in health and post-secondary education. The Committee feels strongly that the time is ripe for such a breakthrough in the social services area.

The programs in this section are: Homemakers' and Nurses' Services, Municipal Homes for the Aged, Children's Aid Societies, and Day Nurseries. Each of these programs has a fascinating history and involves considerable complexities, both of which may be done an injustice by the necessarily brief treatment in this chapter. One feature, however, that should be noted is that these programs are characterized by a considerable degree of diversity and fragmentation, in terms of both administration and funding. The interested reader will find considerably greater detail on each program in the Appendix.

Homemakers' and Nurses' Services

In some ways, this program complements the Home Care Program operated by the Ministry of Health but unlike Home Care

it is not an insured benefit under OHIP. Health's nursing services are provided without a needs test, on a short-term basis, through the Home Care Program, but are confined to patients subsequent to their discharge from hospital. In contrast, home-making or nursing services are provided by the municipalities as an alternative to institutional care to mothers with children and others if elderly, sick or convalescent. The recipient must be a "person in need" and the municipality covers those costs he or she cannot afford. The Provincial grant is 80 per cent of the net program costs, of which 50 per cent comes from the federal government under The Canada Assistance Plan. The services themselves are purchased by municipalities from non-profit organizations such as the Canadian Red Cross Society, the Visiting Homemakers Association, and the Victorian or St. Elizabeth Orders of Nurses.

The Committee feels that there exists a clear need for rationalization between this program and the Home Care Program. There should not be two standards, where on the one hand, some people must contribute or are needs tested under CAP, and on the other hand, some people receive "home-medical" services free under OHIP.

The Committee suggests that all the medically oriented components be consolidated into the Home Care Program under the Ministry of Health, while more genuine social services should

be consolidated under the Ministry of Community and Social Services. In respect of the latter, we expect to submit a more comprehensive recommendation following a discussion of the remaining programs. At this point, therefore, the Committee recommends:

THAT THE HEALTH-ORIENTED SERVICES UNDER THE 8.4
HOMEMAKERS' AND NURSES' SERVICES PROGRAM BE CONSOLIDATED
INTO THE MINISTRY OF HEALTH'S HOME CARE PROGRAM,

Homes for the Aged

At present residential services for the aged are provided by three sources:

- . municipal homes for the aged;
- . charitable homes for the aged; and
- . privately operated nursing homes.

The first two of these services are funded through the Ministry of Community and Social Services while the last is funded through the Ministry of Health. All three types of facilities provide two levels of care:

- . Residential Care (called Intermediate Care in nursing homes) services for persons who are mobile but who otherwise require supervision and assistance for their personal and recreational needs; and

Extended Care services for those residents whose condition requires a minimum of 1 1/2 hours per day of nursing care without requiring the expensive diagnostic and therapeutic services of a hospital.

The Provincial funding arrangements for these services are in some ways anomalous. While those in Residential Care are in all cases expected to pay the full costs on a needs-tested basis (amounting to \$15.93 in charitable homes; \$18.07 in municipal homes and \$19.60 in nursing homes), those in Extended Care are only requested to pay a proxy for the non-medical (room and board) portion of the service, usually referred to as the co-payment, and amounting to \$8.00 per day. The balance of the costs to the homes are covered by the Province as follows:

	Municipal Homes	Charitable Homes	Private Nursing Homes
Residential Care	70% of deficit, no ceiling	100% of the deficit as long as it is no more than 80% of total costs of all Residential Care in that home; \$16.00 ceiling.	100% of deficit on costs up to \$19.60 paid through municipal General Welfare Assistance (which is itself 80% Provincially shared).
Extended Care	100% of deficit above co-payment to \$23.00 per day and 70% of any excess deficit.	100% of deficit above co-payment to \$23.00 per day.	100% of difference between \$8.00 (co-payment) and \$23.00 per day.

However, for the Residential Care components of municipal homes in territorial districts of fewer than 10,000 in population, the Province shares in the costs at a rate of 85 per cent, while in unorganized territories it is 100 per cent.

Other subsidizable costs incurred at the homes are for physicians' fees. The subsidy arrangement on this aspect is somewhat peculiar. The Province pays 100 per cent up to \$2.15 per month per resident for the provision of medical care to residents and 80 per cent up to \$1.30 per month for each bed for general services such as inspection of sanitary conditions and recommendations for improvement, x-rays and physical examination. The Committee is not qualified to judge this arrangement as either satisfactory or practical, but we would raise the possibility of an assessment by qualified experts. Do certain physicians work like multi-firm auditors? Does each home have its own permanent physician? Do physicians "do" a home as a sideline? Are the Provincial payments adequate to buy good medical attention? Are the amounts not geared to a large minimum-size home to ensure good service?

In summary, it would appear that there are a number of funding anomalies associated with the provision of residential services to the aged. The situation is further aggravated by the fact that municipal homes for the aged have become increasingly involved in providing a higher level of care at higher cost.

Ideally, the Province should re-examine the structural

and funding base of residential services to the aged in the context of increased municipal responsibility for these services, and in the interests of rationalizing current practices. Until recently, however, a major barrier to any move in this direction has been federal cost-sharing conditions under The Canada Assistance Plan, which were necessarily reflected in Provincial cost-sharing conditions to municipal, charitable and private homes.

With the introduction, on April 1, 1977, of The Federal-Provincial Fiscal Arrangements and Established Programs Financing Act (EPF) (which provides block federal cost sharing for residential services to the aged) the Province would now appear to have increased flexibility to re-examine its structural and funding approach towards these services. The Committee recommends, therefore:

THAT THE PROVINCE RE-EXAMINE ITS STRUCTURAL
AND FUNDING APPROACHES WITH RESPECT TO ALL RESIDENTIAL
CARE FOR THE AGED, WITH A VIEW TO CONSISTENCY WITH
RELATED PROGRAMS. AND THAT PARTICULAR ATTENTION BE
PAID TO THE APPROPRIATENESS OF THE MUNICIPAL ROLE IN
PROVIDING EXTENDED CARE,

8.5

Children's Aid Societies

This is the oldest Provincial welfare program, dating back to 1893. From its beginning up until after World War II,

Provincial financial assistance was modest, ad hoc, and almost exclusively oriented towards start-up costs. In 1949, net operating costs became eligible for 25 per cent grants, and during the next quarter century, this form of assistance was increased in stages until it reached 80 per cent in 1975. (The federal government entered the field with financial aid in 1966 when the total grant rate jumped from 40 to 60 per cent.)

Fifty Children's Aid Societies (CAS) provide services to children throughout the province and, with a few exceptions, their jurisdictional boundaries are the same as regional, county and district boundaries. Indian Bands and unorganized territories also fall under the Societies' jurisdictions.

Children's Aid Societies are non-profit corporations established to provide for protection of neglected children, prevent conditions which could create a need for protecting children, assist unmarried mothers, act as a placement centre for children seeking adoption, supervise children during the probationary period of adoption.

Children's Aid Societies operate three kinds of residential facilities: receiving homes, assessment centres, and group homes. In addition, they provide preventive services such as counselling and home support which, in some cases, may be in competition with other social agencies. Further, some group

homes are privately operated under contract with a CAS. Finally, other children's institutions and licensed children's boarding homes, each of which generally accomodate small groups of children, provide services to societies on a fee-for-service basis.

Spending by Children's Aid Societies has increased rapidly during the past decade and currently exceeds \$100 million. During the same period, even though there was a decline in the number of children in care and CAS involvement with unmarried mothers, a considerable increase was recorded in cases requiring preventive services. In practice, the federal, Provincial and municipal shares of assistance work out to slightly over 44, 36 and 19 per cent respectively.

The Committee discussed and agreed with the new directions for children services planned by the Province, involving the consolidation of all children's residential programs in one Ministry at the Provincial level and an integrated delivery system at the local level under a local Children's Services Committee. Given the dramatic changes that are yet to be implemented, the Committee understands that a great deal of in-depth research is taking place and discussions are now being held between the Province and the local sector. In view of this, the Committee sees little point to further elaborate on the present delivery system or to speculate on its future. However, the Committee does want to lend its strong support to the idea that children's services

should be managed at the local level.

The Committee recommends, therefore:

THAT LOCAL CHILDREN'S SERVICES COMMITTEES 8.6
BE A DIRECT RESPONSIBILITY OF MUNICIPAL GOVERNMENT
AND THAT, IN THE CASE OF A TWO-TIER SYSTEM OF GOVERN-
MENT, CHILDREN'S SERVICES BE THE RESPONSIBILITY OF THE
UPPER TIER,

THAT, WHEN THESE COMMITTEES ARE CREATED, THE 8.7
PRESENT GRANTS TO CHILDREN'S AID SOCIETIES BE ELIMINATED.

Generally, children's programs are eligible for 50 per cent federal cost sharing and if the Province were to provide 50 per cent of the balance required, its gross contribution to these services would be 75 per cent. However, any attempt to strictly follow this formula will lead to a 50 per cent gross contribution by the Province for services not federally cost-shared.

The Committee recommends, therefore:

THAT, PENDING THE DEVELOPMENT OF FEDERAL- 8.8
PROVINCIAL BLOCK FUNDING, THE PROVINCE SUBSIDIZE CHILD-
REN'S SERVICES AT 50 PER CENT OF THE COSTS NET OF
FEDERAL CONTRIBUTIONS.

Day Nurseries

This grant program is geared primarily to help finance day care services for children of parents who cannot afford all or part of the cost. Recently, the Province has begun subsidization of day care for handicapped children without the requirement of a needs test. These services are delivered by private agencies, municipalities, co-operatives, individuals, and Indian Bands. The Province pays both operating and capital grants and has been recovering about 50 per cent of the net operating costs from the federal government under CAP.

Until a decade ago, the day nurseries program was quite modest with only 13,000 children in the system, primarily in half-day services. Since then, dramatic changes have taken place in the face of a perceived high demand for these services and with the stimulus of greatly increased Provincial assistance.

Starting in 1966, the Province introduced a number of consecutive measures to broaden eligibility for assistance and greatly increase its rates of subsidy. Most significantly, in both 1971 and 1974 the Province sought to encourage new facilities with 100 per cent capital grants, followed in 1974 through 1977 by 100 per cent grants for the cost of furnishings and equipment. As a result, by the end of 1975, there were nearly 1,200 licensed day nurseries.

Operating subsidies of only \$460,000 in 1966 had soared to \$23 million by 1975, of which 68 per cent went to Metro Toronto and the Regions of Ottawa-Carleton and Hamilton-Wentworth.

Eligibility for Provincial operating subsidy is based on two types of situations:

1. Day nurseries for handicapped children which are eligible for Provincial assistance without any reference to the income of the children's parents; that is, a "needs test" is not applied.
2. Regular day nurseries, where parents who are able to pay the fees charged make arrangements for private home care or day care in the nursery of their choice without the involvement of the municipality. (Parents who are unable to pay all or part of the cost of care may apply to the municipality for financial assistance towards the cost of providing day care.)

The rates of operating assistance are as follows:

- (a) Handicapped children five years and over:

- 100 per cent of cost²;

2. The Province pays 100 per cent of the net operating cost for handicapped children over 5 years, since the educational requirements of all children within this age group are a public responsibility.

- (b) Handicapped children under five years of age:
 - (i) 100 per cent of the first 35 per cent;
 - (ii) 80 per cent of the balance of the cost of providing day nursery services;
- (c) Other children:
 - 80 per cent of the net cost.

The rates of capital grants are:

- (a) New construction or acquisition:
 - 50 per cent for municipalities, Indian Bands or approved corporations excluding the handicapped;
 - 80 per cent for handicapped children.
- (b) Building renovation:
 - 80 per cent for all.
- (c) Furnishings and equipment:
 - 80 per cent for all.

As we have stated on a number of occasions, the Committee cannot see any justification for very high grant rates, least of all 100 per cent rates. Generally, we believe that this removes too much responsibility and accountability from municipal government. It also creates anomalies in the system, resulting in widely varying operating cost structures among day nurseries; for example, where some incur no capital costs at all, others may incur capital costs of anywhere from 50 per cent to 100 per cent.

In the case of day nurseries, the Committee is particularly concerned with the stimulating nature of its funding program. We question the real need for the infusion of new capital for construction in the face of declining elementary school enrolment and a host of other alternative facilities in society that could be used for the purpose. The 100 per cent capital grants have unnecessarily encouraged the construction of municipal day care centres rather than the purchase of services from the private sector.

We suspect from the rising cost figures that the average subsidy cost per eligible child has become unreasonably high relative to the cost per student in the elementary school system.

The Committee recommends, therefore:

THAT THE MINISTRY IMMEDIATELY UNDERTAKE A
THOROUGH STUDY OF THE DAY NURSERIES PROGRAM TO ANALYSE
THE IMPACT OF RAPID EXPANSION, THE UTILIZATION OF EXIST-
ING NURSERIES, THE NEED FOR FURTHER GROWTH, THE COST
PER PLACE AND THEIR MAJOR COMPONENTS, AND VARIATIONS IN
COSTS AMONG DAY NURSERIES.

8.9

THAT CAPITAL GRANTS TO MUNICIPALITIES FOR DAY
CARE CENTRES BE SUSPENDED PENDING THIS REVIEW.

8.10

The Committee is aware that in the past five years the Province's grant arrangements for day nurseries have deliberately provided strong stimulus for construction. However, under the Committee's preferred approach of broad reform for social services, municipalities may well attach a lower relative priority to them among social services than has been the case in recent years.

The Committee therefore wishes to express the hope that municipalities and school boards will see the merits and need for increased community use of the many and varied, but often under-utilized, school facilities.

Broader Considerations

In assessing specific features of the previous programs, the Committee has come to recognize the great need for broadly based rationalizations that would apply to all these programs. We have already referred to the need to standardize the percentages of Provincial funding. Yet there are other key aspects of individual programs which the Committee believes require standardization. These include: the definitions of subsidizable costs, the needs and/or income tests, subsidy claims procedures and forms, data bases, and audit procedures. This type of standardization would result in a significant improvement over the existing system. It would imply the application of common basic standards which inevitably would lead to adjustments being made to the unique

aspects of the various services. For example, one standard needs test could be adopted for all appropriate services; yet "exemptions" in the needs test could be used according to differences in the target group, i.e. normal or disabled children.

Such standardization would reduce distortion of municipal priorities and provide an improved basis for municipal planning. It would pave the way for ensuring compliance with basic Provincial service standards and would also greatly improve and simplify the administrative system.

To summarize, then, the Committee sees a need for some rationalization in the foregoing programs. In terms of timing, it is felt that this could be undertaken almost immediately, except that the full implementation of reforms in the children's services undoubtedly will take some time. However, the more basic reforms the Committee visualizes in the area of social services are of much greater significance and urgency.

The Committee reached a consensus in favour of greater disentanglement among the federal, Provincial and municipal governments in the delivery of both General Welfare Assistance and the other social services. In terms of other social services, we suggest that the time has come for arrangements to be made which would parallel the new financing arrangements for health and post-secondary education. While the

Committee has the impression that the federal government is contemplating a slightly broader coverage under the new Social Services Act than under CAP, such broadened coverage should not really stand in the way of more drastic reform. The Committee is simply suggesting that the federal government should contemplate using a larger dollar equivalent for the unconditional replacement financing. Such an arrangement would also avoid the inevitably complex problems pertaining to the dividing line between spending under CAP and spending under the new EPF arrangement.

The Committee recommends, therefore:

THAT THE MINISTRY IMMEDIATELY RATIONALIZE 8.11
EXISTING SOCIAL SERVICES PROGRAMS THROUGH THE STANDARD-
IZATION OF SUCH CRITICAL GRANT FEATURES AS GRANT RATES,
NEEDS OR INCOME TESTING AND CLAIM PROCEDURES,

THAT THE MINISTRY DEVELOP EFFECTIVE AND APPRO- 8.12
PRIATE SERVICE STANDARDS FOR ALL SOCIAL SERVICES PRO-
GRAMS,

THAT THE ONTARIO GOVERNMENT NEGOTIATE WITH THE 8.13
FEDERAL GOVERNMENT AN UNCONDITIONAL FINANCING ARRANGE-
MENT TO REPLACE THE CANADA ASSISTANCE PLAN ALONG THE
LINES OF THE ESTABLISHED PROGRAMS FINANCING ARRANGE-
MENT FOR HEALTH AND POST-SECONDARY EDUCATION,

THAT ONCE THIS UNCONDITIONAL FINANCING ARRANGE- 8.14
MENT IS ESTABLISHED, THE PROVINCE FOLLOW UP BY REPLACING
EXISTING PROVINCIAL-MUNICIPAL CONDITIONAL SOCIAL SERVICES
FUNDING WITH UNCONDITIONAL FINANCING.

Summary

In making the foregoing recommendations, the Committee
believes that a model has been suggested which would relieve
municipalities of a residual role in income maintenance and would
allow them to concentrate on the development of an appropriate
and responsive social services system.

CHAPTER 9

HOUSING

During most of the post-war period, Provincial and local government activity in housing was restricted to assistance for or direct operation of public housing. By the seventies this changed considerably and many new programs were introduced. The Province emphasized its growing interest in housing with the establishment of the Ministry of Housing in 1973. Not all programs to be discussed in this chapter are clearly cases of Provincial-municipal shared-cost programs or transfer programs, yet they all reflect a partnership that has a bearing on financial relations and respective responsibilities.

Ontario Housing Action Program

Under this program, the Province since 1974 has been providing interest-free 5-year loans towards servicing costs, capital grants for new housing units, grants towards the cost of planning and engineering studies, and special mortgage arrangements at subsidized interest rates. We refer the reader to the Appendix

for further details on the components of this program. The Committee only considered this program in light of the considerable level of funding in OHAP carried over into 1977-78. However, the program is being phased out and only outstanding commitments are being met. The Committee refrains, therefore, from any detailed comments or recommendations.

Housing Policy Study Grants

This program, started in 1974, makes available study grants to assist in the preparation of housing policy statements and housing needs requirements. The grant is primarily aimed at regional governments, restructured counties and their lower-tier municipalities to encourage them to co-operate in the development of housing policies and targets.

The grant varies with the size of the municipalities and is subject to ceilings ranging from \$5,000 for urban centres with less than 10,000 inhabitants to \$30,000 for regional municipalities. Costs are not to exceed the ceilings and are fully financed by the grant. The Committee unanimously agreed that the development of housing policies and housing targets is a genuine local responsibility and does not warrant specific Provincial financial assistance.

The Committee recommends:

THAT THE HOUSING POLICY STUDY GRANTS BE ELIMINATED.

Community Planning Study Grants

This program addresses broader planning requirements of smaller communities (10,000 or fewer residents). It provides assistance towards preparation or updating of official plans and zoning by-laws or special planning studies. The grant rate ranges between 50 and 75 per cent, where the actual rate depends on the nature of the activity and the financial position of the municipality. The variable grant rate in practice appears to be somewhat questionable, but given our recommendation we choose not to dwell on this feature. The program was started in 1975 and currently allocates over \$1.5 million per year.

Again, the Committee feels strongly that the activities this program supports are strictly a local obligation well within the financial capabilities of all communities. However, we can see good reasons why, in many instances, the Ministry should make available technical expertise and advice to small communities.

With this latter qualification, therefore, we recommend:

THAT THE COMMUNITY PLANNING STUDY GRANTS BE
ELIMINATED.

9.2

Home Renewal Program

This program was started in 1974 as a means of upgrading existing housing stock through assistance to low-income homeowners.

The program is fully financed by the Province. It is based on the principle of partially forgivable loans and it is administered by the municipalities, who will re-lend the repaid loan funds to new applicants.

The maximum individual loan is \$7,500 of which a maximum of \$4,000 may be forgiven depending on the applicant's family income. The interest to be charged on the balance is also variable with income and has a (subsidized) maximum of 8 per cent. A peculiar feature of the program is that, in spite of specific rules for the forgivable portion, the actual forgiveness is left at the discretion of the municipality. The program is treated as somewhat complementary to the Neighbourhood Improvement Program (NIP) as municipalities qualifying for the latter usually do not get funds for home renewal.

The home renewal program is not without complexities. It features: (a) an allocation formula (revised in 1977) setting annual maxima for municipalities for new funds, which is inversely related to population size; (b) a formula for determining "adjusted family income", which in turn features in the next two schedules; (c) a schedule which relates forgiveness to adjusted family income; and (d) a schedule which relates loan interest rates to adjusted family income. Starting in 1977, municipalities can also request the Minister to allow postponement of repayment or even complete forgiveness in situations rated as hardship cases. (See Appendix for all schedules).

To receive any funds, a municipality must have standards for housing maintenance, it must inspect all units of loan applicants, it must search titles, register liens on titles, and administer the loan account. In return, municipalities can withhold a percentage of the Provincial funds for administrative costs, the percentage depending on their population size (maximum 10 per cent). The Committee understands that the repayment period for loans can vary considerably under a general rule not to go beyond the life expectancy of a home.

The Committee notes that the formula for allocating Provincial funds is strongly biased in favour of small municipalities.

The Committee, in assessing this program, held lengthy discussions on the validity of the Province financing the full cost of this program. Some members felt it was not really a Provincial-municipal transfer program and that municipalities merely administer a Provincial program. Given the history of the program, it is difficult to disagree with this interpretation and we are inclined to think that the Province itself has viewed it as such. Nevertheless, the Committee feels uncomfortable to leave it at that. At least, we have to assume that the individual's and his community's direct interest in keeping the existing housing stock in good condition exceeds that of the province at large. It becomes very difficult, therefore, to suggest the existence of a strong rationale for a 100 per cent Provincial grant program, except on a trial basis

to convince municipalities of the merit of this type of program. We also recognize that the Province's involvement is not unlike its program to shield low-income people from undue property tax burdens.

The Committee would consider it a great improvement if the Province were to match municipal funds for this purpose, where loans at a low fixed interest rate are fully repayable, and the annual repayments are integrated with the Ontario Tax Credit system. This would make present program schedules redundant. It would test municipal interest in the program, even though municipal subsidization would be limited to administration and interest subsidization on its share. Municipalities could have the discretionary powers to waive part or full repayment of their own share. Ultimate subsidization of the individual would be smoothly related to taxable income.

The Committee recommends:

THAT THE ONTARIO HOME RENEWAL PROGRAM BE
RE-DESIGNED AS A SHARED PROVINCIAL-MUNICIPAL FUNDING
ARRANGEMENT.

9.3

The Committee believes that similar modifications would be appropriate for the more recently introduced OHRP for rental accommodation.

Neighbourhood Improvement Program

The program was initiated by the federal government in late 1972 as a partial replacement for the Urban Renewal Program which the federal government discontinued in 1968. Operationally, this program involves agreements between the Province and CMHC on eligible projects in designated areas. The municipalities benefitting are selected by the Province in consultation with the Municipal Liaison Committee. The program is aimed at the upgrading of deteriorating but viable residential neighbourhoods in which primarily low and moderate income families are living. The federal government operates a complementary program, Residential Rehabilitation, which provides for direct payments to individuals within a selected area. NIP addresses the environment: social and recreation facilities, improving utility services, costs of planning, land acquisition or clearance, individual's relocation costs, et cetera.

The Province pays 25 per cent of the total costs, the federal government pays either 50 or 25 per cent depending on types of expenditures, and the municipality pays the balance. More detail is provided in the Appendix.

We can see merit in this type of program, but we have to assume also that the involvement of three (or four) levels of government and a variety of local interest groups makes this program

cumbersome and bureaucratic. We question the need for two federal grant rates, but are happy to note that in practice there is no evidence of them biasing expenditure in favour of spending on high-rate items only. (For the first three years, federal assistance averaged 37 per cent).

We would also like to draw attention to the fact that to date commitments have been much in excess of actual transfers and spending. As a result, all three levels of government will experience as yet much higher cash requirements for this program than has been the case until now. In the case of federal spending, the Committee does not know if in future this would be at the expense of other forms of CMHC assistance under an aggregate target allocation to Ontario.

The Neighbourhood Improvement Program must be recognized as a specific conditional grant program, and while it is acknowledged that conditional grants can have a detrimental effect on local autonomy and decision-making, in this case the N.I.P. grants exhibit those features that we as a Committee see as essential to future specific grants. It is stimulative in nature, consistent with our principles on cost sharing and has a specific short term expectancy.

Accordingly, the Committee recommends:

THAT THE NEIGHBOURHOOD IMPROVEMENT PROGRAM BE
TERMINATED AT THE CONCLUSION OF THE CURRENT FEDERAL-
PROVINCIAL AGREEMENT.

Downtown Revitalization Program

Since the demise of the Urban Renewal Program in 1968, there has been no senior government assistance available to the municipalities wishing to undertake the revitalization of their downtown core areas. The Ontario Government commissioned a study of the Urban Renewal Program, including an assessment of the need for downtown revitalization with public assistance. The report, Revitalizing Ontario's Downtowns, was published in 1975 and one of its conclusions was that some form of public assistance was necessary for smaller and medium-sized communities towards downtown revitalization.

The new program that resulted is specifically designed to assist strategic renewal in downtown core areas to arrest further decline and restore confidence in these cores. Only municipalities with a population of up to 125,000 are eligible, provided they have an approved official plan incorporating policies for their downtowns. Other conditions are detailed in the Appendix, which also describes eligible costs and specific objectives. The contribution from the Province is two-thirds of the costs of implementation.

Essentially, this is not a grant program, as one of the provisions of the program stipulates a recovery by the Province of up to 110 per cent of its contribution. It is, therefore, more like a shared investment arrangement, whereby the Province limits itself to recouping only 10 per cent more than its original

contribution, and all other long-term investment gains remain local. However, the Provincial recovery is not assured as it is contingent on the project's success in generating additional revenue for the municipality.

This program then can only be interpreted as a subsidy program in that the Province assumes two-thirds of the risks and, over the long term, only receives a maximum of 10 per cent over its original investment which of course is far below the implicit cost of funds over any period of years.

The Committee does not wish to make further comment on this recently established program except in respect of the recovery formula. This formula is in four parts. The first three give the Province two-thirds of the proceeds of sale of lands or buildings, two-thirds of sharing in contingent income to the project developer, and two-thirds of proceeds from leasing space in malls. The fourth part specifies a two-third share for the Province from incremental property tax revenue, if and when it is realized, using the local commercial mill rate for general municipal purposes and the increase in business and realty assessment associated with the project. The Committee can see the logic underlying this formula, but still considers it unduly cumbersome and probably unworkable with property tax reform during the life of this program. The Committee also expresses the desire to see an immediate review of the above formula in light of the long-term administrative

nightmare we foresee, even though actual implementation and therefore experience are yet to commence. In conclusion, we would recommend:

THAT THE DOWNTOWN REVITALIZATION PROGRAM BE 9.5
REVIEWED IN 1980 WITH A VIEW TO ELIMINATION.

THAT IN THE INTERIM THE SCHEME FOR PROVINCIAL 9.6
LOAN RECOVERY BE SIMPLIFIED.

Subsidized Housing

Under this program, government assistance is provided to low-income people in public housing in the form of rents below full-recovery levels. The actual rent paid is determined relative to the income of the tenant and ranges from 15 per cent to 25 per cent of income. The Province, through the Ontario Housing Corporation, pays municipalities full property taxes on public housing units in the form of payments-in-lieu of taxes. The subsidy costs per unit have been rising rapidly and at present are approaching an average of \$200 per month. The number of public housing units has also risen sharply, reaching over 72,000 in 1976. As a result, the total rent subsidy costs have almost doubled since 1974 and now exceed \$160 million. The total subsidization is financed by all three levels of government, with the federal government contributing 50 per cent, the Province 42½ per cent, and municipalities the remaining 7½ per cent.

The Committee recognizes that this program is not really a grant program to municipalities, but rather a cost-sharing program of social assistance to low-income individuals, where the percentage of shares of the three levels of government happen to differ from those of the General Welfare Assistance Program. We believe that this program requires a change in arrangements to eliminate municipal involvement. In the case of subsidized housing the Committee prefers to see an arrangement whereby an eligible individual pays full economic rent, and his income is supplemented by the appropriate level of government. Of course, this ancillary aspect of rationalizing social assistance programs requires federal government flexibility and cooperation.

In other words, we do not consider the rent-geared-to-income housing program a genuine housing program; nor do we see continuing financial participation by municipalities as necessary or logical. This program merely represents yet another wrinkle in a maze of social assistance and financial relief programs, where obvious reforms are clearly required quite apart from the Provincial-municipal relationship. In this context, highly localized involvement and financial participation makes little sense, does nothing for local autonomy or decision making, and should in fact be avoided. This is not to say that the Ministry of Housing, in full cooperation with municipalities, should not emphasize yet more the production of low-cost housing, notably in larger urban areas. This is a topic in its

own right and beyond our terms of reference. Nevertheless, we would like to stress that we see a stronger case for direct and legitimate municipal responsibility in promoting low-cost housing than for municipal involvement in the subsidized housing program.

The Committee, therefore, recommends:

THAT THE MUNICIPAL PARTICIPATION IN SUBSIDIZED
HOUSING BE ELIMINATED.

9.7

Termite Control Program

Assistance towards the costs of termite control features in a number of ways. First, it is included in the shareable costs of the Neighbourhood Improvement Program previously discussed. Second, termite control costs are also eligible for assistance by the federal government under the Residential Rehabilitation Assistance Program. Finally, the Ministry of the Environment has recently started a specific grant program for the costs of termite control. The Ministry enters into agreements with municipalities which specify the need for enforcement of by-laws to control termites. The municipality processes applications from home (building) owners and applies to the Ministry. Sixty per cent of the cost of treating a building for termite control is covered by MOE to a maximum of \$2,000. (The maximum, however, is rarely reached). The municipal contribution is not specified, but usually runs at around 25 per cent up to \$125. The total annual allocation in MOE is \$125,000.

The Committee can see the merit of including termite control costs in the NIP and RRAP shareable expenditures. These programs operate primarily in old and neglected urban areas, mostly inhabited by low-income people, where termite infestations have a higher probability and the incentive or finances to do something about it are limited.

The Committee, however, cannot support the new termite control program of the Ministry of the Environment. Its financial dimension alone, at \$125,000 per annum for the whole province, is an indictment of this program. We are dealing here with a highly personalized and localized concern as well. It is surely within the financial scope and interest of municipalities to choose to assist some or all of its residents in fighting termite or rodent infestations. We recommend, therefore:

THAT THE MOE PROGRAM TO REIMBURSE HOMEOWNERS FOR COSTS OF TERMITE CONTROL BE ELIMINATED. 9.8

THAT ALL MUNICIPALITIES ASSESS THE NEED FOR ENFORCEMENT OF BY-LAWS TO CONTROL TERMITES, WHEREVER APPROPRIATE, IN CONSULTATION WITH THE MINISTRY. 9.9

CHAPTER 10

UNCONDITIONAL GRANTS

Some Historical Perspective

Compared to conditional grants, unconditional grants to municipalities are relatively new. This is generally true for all provinces. In fact, Ontario was probably one of the first provinces to introduce such grants, but it did so only as a by-product of pre-empting municipalities from the income tax field in 1936. At first, unconditional assistance was expressed as one mill on taxable assessment. In contrast, Nova Scotia introduced a form of per capita grants when its municipalities were pre-empted from the income tax field in 1940.

In 1949, Ontario altered unconditional grants and replaced them with percentage grants relating to fire department and policing costs. An overriding guarantee was provided amounting to the 1948 value of the one mill unconditional grant. In other words, individual municipalities did not lose grant benefits and, where fire or policing services had been poor, there was an incentive to upgrade. This type of guarantee has become almost a standard procedure of the Province. It undoubtedly makes sense to smooth over the adjustment to changes or reforms, but the Committee

prefers transitionalization over flat guarantees. Notably when reforms take place in a comprehensive way, as may be the case in the next few years, it is undesirable to engage in guarantees, as they may ignore offsetting reform effects or retard the progress towards improved equities.

Starting in 1954, Ontario introduced its first per capita grants with some upward gradations relating both to municipal status and population. As a result, "unconditional" grants, which had hovered between \$3 and \$5 million annually between 1937 and 1953, rose to almost \$12 million. The basic structure of the per capita grants did not change significantly until the early seventies. However, for a while the unconditional grants became overburdened with partial designations or add-ons for such matters as the provision of welfare and social services, the administration of justice and municipal costs of hospitalizing indigent patients. Also, from 1957 until 1975, per capita grants were to be applied directly to the benefit of residential and farm property tax mill rates. This resulted in the so-called "split mill rate" between residential-farm and commercial-industrial properties. Differences in assessment mix resulted in wide variations in mill rate differentials. In 1975, this relationship was severed when Provincial legislation introduced a standard mill rate differential of 15 per cent for all municipalities.¹

1. This standard differential was already in effect in all regional governments.

Another unconditional grant was introduced in the early fifties in the form of special payments to mining municipalities. Prior to that time, these municipalities had received revenue from the taxation of mining profits on account of the problems of assessing mining properties, which were left exempt. The formulae for these payments have undergone a number of changes over the years, the last revision taking place in 1971 when a formula was adopted which became the natural precursor of the general equalization grants introduced in 1973.

In 1970, the Province introduced an unconditional per capita grant in respect of municipal policing costs. This grant first applied only to regional governments with a regional police force. Two years later, all municipalities which incurred police costs were made eligible for this type of grant, but a favourable rate was maintained for regional police forces. This favourable rate was in recognition of higher costs of extending and upgrading services in rural areas, and the assumption of responsibility in areas previously policed by the O.P.P.

Also in 1970, the so-called density grant was introduced on behalf of area municipalities in regional governments in recognition of the higher per capita cost of servicing sparsely populated area municipalities. Regional governments also became eligible, in 1971, for transitional grants to permit the phasing in of major tax shifts, and for special assistance towards establishment

of an adequate infrastructure for region-wide provision of certain services.

The last major change in Ontario's unconditional grants took place in 1973 when greater relative emphasis was placed on unconditional assistance with a large infusion of money through the introduction of a number of new unconditional grants: the resource equalization, general support, and special support grants. As a result, by 1977, unconditional grants had risen to \$436 million and accounted for 28.3 per cent of total municipal assistance.

The Other Provinces

In order to put the above observations in perspective, we undertook a review of unconditional grants to municipalities in the other provinces. We found a considerable variation in approach or emphasis on unconditional grants. Significant differences exist in the distribution of responsibility between the two levels of government, both in terms of spending and taxing. No two provinces have directly comparable unconditional grants and, where there are similarities, there remain differences in terms of specific details. Some provinces have comprehensive long-term commitments for total grants, other provinces link growth of specific unconditional grants to a small part of their own total revenue structure, while Quebec has a form of tax sharing in the retail sales tax. The variety is so bewildering that the Committee will refrain from a detailed

presentation in this chapter. Some detail is contained in the Appendix, which cannot do full justice to the subtleties and finer points of individual programs in practice.

The most common grant is the per capita grant. We found four provinces which use a uniform dollar amount per capita and four other provinces where the per capita rate varies with population size. We found six provinces with some type of equalization grants, no two of which were comparable. Five provinces pay a type of general support grant which may relate to such factors as local collections or local spending. We also assessed where Ontario stands relative to its sister provinces in respect of unconditional versus conditional assistance and in respect of total assistance. Institutional and other differences noted above will make these comparisons somewhat hazardous, but we found the results sufficiently interesting to highlight them here in a table.

The table illustrates that, while Ontario provides the greatest total assistance to municipalities, it does not compare favourably with other provinces in terms of the share of total assistance in unconditional form.

PROVINCIAL-MUNICIPAL TRANSFERS PER CAPITA: 1976^{*}
(\\$)

	(1) Uncondi- tional	(2) Rank	(3) Condi- tional	(4) Total	(5) Rank	(6) (1) as a % of 4	(7) Rank
NEWFOUNDLAND	9.32	10	44.47	53.79	9	16.7	9
PRINCE EDWARD ISLAND	11.84	9	5.92	17.76	10	66.7	3
NOVA SCOTIA	42.00	4	89.31	131.31	4	32.0	5
NEW BRUNSWICK	52.27	2	11.66	63.93	8	81.8	1
QUEBEC	62.78	1	30.20	92.98	5	67.5	2
ONTARIO	42.97	3	113.98	156.94	1	27.4	6
MANITOBA	16.05	8	71.07	87.12	6	18.4	7
SASKATCHEWAN	19.54	7	112.88	132.42	3	14.8	10
ALBERTA	28.73	6	127.74	156.46	2	18.4	8
BRITISH COLUMBIA	37.14	5	33.97	71.10	7	52.2	4
CANADA	43.71		75.59	119.29		36.7	

* Sources: Statistics Canada, Local Government Finance (68-203), 1976 Estimates, Table 1 and Estimated Population of Canada by Province (91-201), Table 1. Population is estimated for June 1, 1976. Grants exclude transfers to school boards, payments in lieu of taxes, tax credits and rebates but include transfers to local hospitals.

Ontario Unconditional Grants Today

The General Per Capita Grant

At present, the per capita grants range from \$7 for population up to 5,000 to \$9 for population in excess of 200,000. An exception is made for regional municipalities which receive a flat \$10 per capita for their total population. In regional municipalities, payment of the grant is made to the upper tier on behalf of the area municipalities. The region is required to apply each area municipality's per capita grant entitlement against its upper-tier requisition. As a result, the full weight of per capita grants is reflected in a reduced upper-tier mill rate. The Committee considers this an unnecessary contrivance. Surely, the per capita grants are meant to be an unconditional transfer against total municipal spending including that of the area municipality.

It is worth noting that in respect of regional government, the Province has chosen to maintain municipal status and preferential flat per capita grants. It has been argued that this compensates for the higher cost per capita involved in extending and upgrading services to sparsely populated rural areas which were absorbed by regional government. There may well be some truth in this, but it does raise the more general question of the inevitable arbitrariness of any graduated scale of per capita grants, where no one could ever demonstrate the variances to relate meaningfully to anything

in the real world. However, we would not want to suggest the elimination of the general per capita grant. The per capita grants can be seen to have merit because of their simplicity and general acceptance.

The Policing Per Capita Grant

This grant is available to all municipalities that incur policing costs either because they have their own force or because they pay under contract with the O.P.P. It is, in fact, an unconditional per capita grant which identifies municipalities which incur police costs. From its inception in 1970 until today municipalities with regional forces have enjoyed a higher grant rate. In 1977, regional municipalities (other than Ottawa-Carleton and the restructured county of Oxford) are eligible for \$15.00 per capita and all other eligible municipalities receive \$10.00 per capita. This distinction reflects the Province's objective to encourage establishment of regional forces in regional municipalities and the Province's assumption that per capita costs will be higher than elsewhere in the case of regional forces. In the region of Ottawa-Carleton the option of a regional force was not chosen and, as a result, area municipalities with their own forces receive the lower rate.

The Committee notes that, in contrast with the general per capita grant, the above grant is not based on a graduated

population schedule but uses two flat rates. Also, the police per capita grant goes to only 200 municipalities out of a total of 797 municipalities. However, the limited number of eligible municipalities are the most populous urbanized part of the province and represent 84 per cent of the population. Of course, the large number of small ineligible municipalities receive a 100 per cent subsidy in kind in the form of free O.P.P. policing.

Policing needs do vary a great deal among municipalities. Obviously, the types of policing and required level of sophistication in a Metro Toronto far exceed that of smaller communities. So do the costs. In light of the above, a per capita grant can never be expected to relate smoothly to local policing needs or costs.

During our discussions, the Committee concluded that it can see merit in O.P.P. policing of the province's small communities where it simply would make no sense to set up independent local police forces, which would incur exorbitant diseconomies. Having agreed with the cost-efficient choice of O.P.P. policing, the Committee fails to see why these communities should not be charged on a cost-recovery basis. While the Province hopes to improve the overall equity at the local level both through tax reform and grants reform, the continuation of selective free policing would stand out as a gross inequity. At the same time, once this practice is discontinued, the rationale for a separate unconditional per capita grant for policing would disappear.

The Committee, therefore, recommends:

THAT FREE O.P.P. POLICING BE DISCONTINUED AND 10.1
MUNICIPALITIES POLICED BY THE O.P.P. BE CHARGED FOR THE
COST OF THIS SERVICE.

THAT THE POLICING PER CAPITA GRANT BE ELIMINATED. 10.2

The Committee recognizes that a number of free-O.P.P. municipalities may wish to set up their own forces once they are fully charged for the service. This would be a legitimate local option. In fact, once they pay for the O.P.P. services, the Committee thinks that individual municipalities also acquire the right to request a more intense service level if they so desire.

The Committee recognizes the Provincial preference for regional police forces expressed through its differential per capita police grant rate. We believe, however, that a sound and equitable grant structure should not influence the method of delivery of service and therefore recommend:

THAT IF THE PROVINCE DESIRES THE ESTABLISHMENT 10.3
OF REGIONAL POLICE FORCES, IT DO SO BY LEGISLATION RATHER
THAN THROUGH THE GRANT SYSTEM.

The Per Capita Density Grant

This grant was introduced in 1970 and provides assistance to regional municipalities on behalf of sparsely populated area municipalities. Specifically, the grant is determined by a schedule which relates per capita amounts to density which is defined as the number of households per acre. (It has not yet been metricized). The schedule is not particularly smooth and abrupt grant changes do take place at the various margins. For instance, at less than 0.15 households per acre a municipality receives \$5 per capita, and the schedule drops in even dollar amounts until it reaches \$1 per capita at 0.75 households per acre beyond which the grant becomes zero. In total only about \$5 million is disbursed annually.

This grant has a number of drawbacks. For example, the typical area municipality had an urbanized core with healthy density, but upon reorganization it acquired sufficient outlying acreage to reduce its density and hence make it eligible for the grant. In these circumstances, however, it is unlikely that, in the foreseeable future, residents in the outlying areas will or should receive services that fully compare to those in the core area. The grant, however, reduces the upper-tier mill rate equally for all residents in both the urban and rural areas of the municipality in respect of general services. At the same time, there are many low density municipalities outside regions that do not receive this grant. Of course, many of these communities may not require levels of service that compare to urban core areas in the regions.

On balance, the Committee cannot find strong reasons for continuing this grant. It has an abrupt schedule, it is quite modest, and it is not likely to accelerate or improve urban-type services in the outlying areas of recipient municipalities. We recommend, therefore:

THAT THE PER CAPITA DENSITY GRANT BE ELIMINATED. 10.4

There is an important aspect of per capita grants which needs to be mentioned. When regional governments establish their gross general requisitions from area municipalities on an equalized assessment basis, these requisitions express themselves as identical upper-tier general mill rates throughout the region. However, the subsequent attribution of per capita grants to area municipalities on the basis of their populations eliminates this equality of upper-tier mill rates. The Committee considers such uniformity to be an attractive objective. It therefore believes that per capita grants should be treated as general revenues of regional governments so that per capita grant benefits are implicitly distributed on the basis of equalized assessment. This will ensure equality of general upper-tier mill rates.

The Committee also realizes that, because existing per capita grants are paid solely to the region or restructured county, they do not take into account the distribution of functions between upper and lower tiers. For this reason we believe that separate per capita grants ought to be made to each tier.

The only remaining question is how the grants should be split between the two tiers. The Committee recognizes that the distribution of functions between upper and lower tiers varies among regions and restructured counties. We therefore believe that the per capita grant should be divided between the two tiers in the same proportion as tax levies.

Accordingly, we recommend:

THAT A UNIFORM PER CAPITA GRANT BE PAID TO ALL MUNICIPALITIES WITH THE EXCEPTION THAT WITHIN A REGION, RESTRUCTURED COUNTY OR COUNTY, THE PER CAPITA AMOUNT IS TO BE DIVIDED BETWEEN AN UPPER-TIER MUNICIPALITY AND ITS LOWER-TIER MUNICIPALITIES IN THE SAME PROPORTION THAT THE PRIOR YEAR'S TOTAL UPPER-TIER LEVY BEARS TO THE PRIOR YEAR'S MUNICIPAL LEVIES OF ALL LOWER-TIER MUNICIPALITIES COMBINED. 10.5

THAT THE PER CAPITA GRANT PAID TO AN UPPER-TIER MUNICIPALITY BE TREATED AS GENERAL REVENUE. 10.6

The General Support Grant

The general support grant (G.S.G.) was introduced in 1973 as part of a package of new unconditional grants, including a resource equalization grant. In that year, the Province switched heavily into new levy-based unconditional grants, while restraining

conditional grants. Between 1972 and 1973 unconditional grants to municipalities as a percentage of total municipal grants doubled from 13.2 to 26.2 per cent.

Originally, the G.S.G. had an interesting feature designed to ensure that the large increase in unconditional assistance would not lead solely to increased municipal spending, but instead would modify mill rates. This approach was initially successful given the objective, but it became a complex feature that was no longer critical in the absence of further large infusions of new funds. It was abandoned in 1975 and for the purposes of our Report we will only deal with the grant in its current form.

Essentially the G.S.G. is a simple grant as it involves a universal 6 per cent grant rate that is applied to the general municipal levy for both upper - and lower-tier municipalities. The levy base is the one for the prior year which permits a reasonably accurate calculation of the grant within the year in which it is paid. As a result, ultimate grant finalizations normally involve relatively small amounts, the only delay being the late submission of accurate municipal financial reports for the previous year by some municipalities. In fact, there is considerable scope for improvement in the timing and accuracy of financial reports for many municipalities. The Committee understands that, as late as August 1977, there were still 51 municipalities which had failed to follow up on requests to improve their 1975 audited financial

reports. However, the Committee is pleased to note that, with the increased importance of accurate financial reporting, progress has been made in simplifying the mandatory annual financial reporting.

The only complexities of the general support grant are related to the determination of the levy base. Over the years, a number of refinements have been made to this base, some at the request of municipalities, to improve the equity and neutrality of the grant. In 1973, the sudden influx of significant levy-based grants resulted in many mill rate reductions, which in turn eroded the base for these grants in the subsequent year. The natural result of this would have been somewhat unstable grant patterns and mill rate developments. It was decided, therefore, that, starting in the second year for these grants, the prior-year levy base was to include the prior-year entitlements from the levy-based unconditional grants. We note that this practice is also consistent with an attempt to more closely approximate the levy base to net local requirements. Net requirements are equal to current spending less conditional transfers and per capita grants from other levels of government. This major refinement has remained an essential part of these grants and the Committee recognizes that the reasons for this complication are sound. In fact, in practice it has given very few problems.

This practice will be all the more important if grants are eliminated and replaced by levy-based grants, whether they be

general support grants or resource equalization grants. In this case, the rates of these grants would be abnormally high in the transitional year only to drop again in subsequent years. Accordingly, the Committee recommends:

THAT, SHOULD ANY GRANTS BE ELIMINATED AND
REPLACED BY LEVY-BASED GRANTS, THE PRIOR-YEAR VALUE OF
THESE GRANTS BE ADDED TO THE PRIOR-YEAR LEVY FOR GRANT
PURPOSES,

10.7

Of course, other major grant enrichments (per capita or otherwise) will also tend to modify the levy base, but we would not suggest the Province go to the extreme of adding all transfers into the base and thus use gross local requirements. For one thing, such grant enrichments do not cause large fluctuations in the G.S.G. Also, the levy-based grants would become an undue case of grants upon grants plus a licence to spend.

We find other refinements that were introduced more difficult to justify. First, the Province modified the levy-base by deducting any increases in surpluses on the grounds that they were not part of current local net requirements. Subsequently, the reverse feature was also adopted by increasing the levy through the inclusion of reductions in surpluses. The Committee can see the point of doing this, but also recognizes that this feature makes little difference over a period of time where its impacts on grants are cancelled out. The annual amounts of grant differences between

doing this and not doing this are very modest compared to the practical complications created by these refinements. The Committee therefore recommends:

THAT INCREASES AND DECREASES IN SURPLUSES BE 10.8
IGNORED IN CALCULATING THE LOCAL LEVY FOR PURPOSES OF
LEVY-BASED GRANTS.

Of much greater significance is the implicit inequity in the present system of the treatment of water and sewerage charges in determining the levy base. Most local sewerage charges are included in the levy base. However, unlike sewerage charges, a considerable portion of water charges is unrelated to the property tax and hence are not included in the levy base. As we mentioned in Chapter 4, the Committee is strongly in favour of more realistic user charges for water and sewerage, but at the same time we would emphasize the need that all these charges are caught in the levy base. The Committee has been given to understand that the revised financial reporting now being contemplated for municipalities will make it possible for the first time to identify water and sewerage charges comprehensively. The Committee therefore recommends:

THAT THE LOCAL LEVY FOR PURPOSES OF LEVY-BASED 10.9
GRANTS BE RE-DEFINED TO INCLUDE ALL USER CHARGES FOR
WATER AND SEWERAGE.

In making Recommendation 10.9, the Committee wishes to

recall its recommendation on capital grants for water and sewerage projects. We recommended that rates up to 75 per cent be replaced with rates up to 50 per cent. Ideally, it is only if the 50 per cent grant rate ceiling is adopted that the levy base is broadened to include user charges for water and sewerage. With the existing capital grant rates of 75 per cent, we fear that total assistance, including unconditional grants on user charges, would become excessive for a local function where we advocate greater accountability.

The discussion of water and sewerage led the Committee to the issue of special purpose requisitions levied by upper-tier municipalities. These requisitions are characterized by a distribution of liability among lower-tier municipalities that varies from that of the general requisition. A regional municipality, for example, will requisition from those lower-tier municipalities benefitting from the provision of regional water and sewer services under a user charge arrangement whereas all lower-tier municipalities in the region would participate in the cost sharing of generally rated services whose costs are distributed on the basis of equalized assessment. County libraries, transit and county roads are examples of other functions conducted at the upper-tier level which may be financed via special purpose requisitions. In certain cases, a function will be split between the two tiers.

In the period 1973 the Province paid the G.S.G. in respect

of these requisitions at the lower-tier level largely on account of the existence of differential G.S.G. rates between an upper-tier and its constituent lower-tier municipalities. Presently, this practice continues despite the phenomenon of a uniform G.S.G. rate. To pay the G.S.G. in respect of special purpose requisitions at the upper-tier level, and bearing in mind that unconditional transfers are treated as general revenues, would imply that grant benefits are distributed in an identical fashion as the general requisition. In that the distribution of grant benefits would not bear any direct relationship to the distributional pattern of a special purpose requisition, such an arrangement would prove inequitable.

The Committee, however, is concerned that the payment of the G.S.G. in respect of special purpose requisitions at the lower-tier level distorts the relationship between upper and lower-tier mill rates. Furthermore, the functions under discussion are legally a responsibility at the upper-tier level. As a means of promoting greater accountability and simplification of the grant administration, the Committee recommends:

THAT PAYMENT OF THE GENERAL SUPPORT GRANT IN
RESPECT OF SPECIAL PURPOSE REQUISITIONS BE MADE AT THE
UPPER-TIER LEVEL AND THAT THE GRANT BENEFITS BE APPOR-
TIONED IN THE SAME MANNER AS, AND BE APPLIED AGAINST,
THESE SPECIAL REQUISITIONS.

10.10

THAT, WHERE A FUNCTION IS SPLIT BETWEEN UPPER
AND LOWER TIER, THE PAYMENT OF THE GENERAL SUPPORT GRANT
BE MADE TO EACH TIER IN RESPECT OF ITS OWN ACTIVITY,

10.11

The Northern Ontario Special Support Grant

Starting in 1973, municipalities in Northern Ontario became eligible for a special support grant whose base is identical to the G.S.G. and which was paid in addition to the G.S.G. The grant rate started at 10 per cent and reached 18 per cent for 1977. This grant has two purposes. Primarily it recognizes the unique costs that confront Northern communities, attributable to harsh winters, unusual geographic features, great distances and isolation, as well as the lack of certain services. While existing conditional grant programs already took these factors into account to varying degrees, this program was a comprehensive form of assistance. Secondly, it aims to reduce property taxes, on average, below the levels prevailing in the South to recognize that people in the North face generally higher costs of living and therefore should get a relative advantage at least in their property taxes. By and large, this objective appears to have been achieved; average household residential property taxes in the North are some \$100 below those in the South, in spite of comparable municipal spending levels.

The Committee in principle has no reservations about this program but wishes to state that recommendations affecting the base

of the general support grant would also apply to this grant. However, we do wish to make a number of observations. Of all the levy-based unconditional grants, this special support grant has risen most rapidly. Between the three levy-based grants the total grant rate can be as high as 49 per cent. In addition, there are the per capita grants and all the conditional transfers. Out of all this emerges a picture that gives us some concern about the future. The Committee believes that there is some limit to Provincial assistance beyond which local accountability is undermined and eroded. We do not know what this limit is. Nevertheless, the Committee feels that unduly high levels of assistance accompanied by low local tax efforts invite excessive spending and ultimately direct Provincial controls. Neither of these eventualities is desirable.

We do not want to single out the special support grant as the potential culprit and only choose this place to reflect on the problem. It is a generic problem that all grant programs individually have in common if their rates are high. However, it becomes much more serious if, in combination, total assistance reaches a high level relative to local tax effort. This problem happens to be more obvious in the North because of the special support grant and the high incidence of low-assessment communities with high grant rates under the resource equalization grant.

The other observation the Committee wishes to make has to do with the changing boundary for "Northern Ontario". When a

special grant is either very high or zero depending on the location of a municipality, the dividing line becomes extremely important. The original dividing line was successfully assailed and lasted only two years, at which time the District of Parry Sound became eligible for a special support grant at half the rate in Northern Ontario. Two years later, the municipalities in Parry Sound and Nipissing Districts south of the original dividing line became eligible for the full Northern Ontario rate. The arrangement of a buffer zone where municipalities received grant rates equal to half the Northern grant rate alleviated some of the pressure to have the dividing line moved southwards. In 1977 this buffer zone was unfortunately eliminated. By then the Northern grant rate had reached 18 per cent and provided a stark contrast to the zero rate for municipalities south of the line.

In light of the foregoing, the Committee recommends:

THAT THE CONTINUING INCREASE IN RATES FOR THE 10.12
NORTHERN ONTARIO SPECIAL SUPPORT GRANT BE RESISTED AND
CONSIDERATION BE GIVEN INSTEAD TO A HIGHER MAXIMUM RATE
FOR THE RESOURCE EQUALIZATION GRANT.

THAT CONSIDERATION BE GIVEN TO THE REINSTATEMENT 10.13
OF THE 1975 BOUNDARIES AND A BUFFER ZONE AT ONE-HALF THE
NORTHERN RATE FOR THE NORTHERN ONTARIO SPECIAL SUPPORT
GRANT.

The Resource Equalization Grant

As part of the major unconditional grant reform of 1973, the Province also introduced a resource equalization grant (R.E.G.). Until this time all forms of equalization had been incorporated implicitly or explicitly in conditional grant programs.

The resource equalization grant is designed to strengthen the fiscal capacity of municipalities whose tax bases are below the Provincial standard. This grant enables these municipalities to provide an adequate level of services without need to set unduly high mill rates. In practice the standard has been set to approximate the average equalized assessment per capita in the province. For example, if the average is \$10,000 and a municipality's per capita assessment is \$8,000, it has a deficiency of \$2,000 per capita. Under full equalization, this deficiency, expressed as a percentage of the provincial average is the grant rate, which would be 20 per cent in our example. This grant rate is applied to the municipality's net general dollar levy to establish the dollar value of the grant.

At the outset, however, the Province introduced a pro-rating factor of 50 per cent which halved the municipality's grant rate. In our example the municipality would receive a 10 per cent rather than 20 per cent grant rate. Furthermore, the Province applied a maximum ceiling of 20 per cent on the grant rate. The pro-rating factor was subsequently raised to 60 per cent and the

maximum to 25 per cent. For 1977 the standard is \$10,650 per capita equalized assessment.

The maximum grant rate was introduced because there were extreme cases of deficiency in equalized assessment. In the absence of a maximum, the formula would have produced such high grant rates as to bring into question the accountability of the recipient municipality. However, the introduction of these modifications was made primarily in recognition of the lack of reliability and comparability of equalized assessment data employed in the formula. Moreover, the ultimate transition to market value assessment will produce less traumatic changes in the grant. Given the quality of assessment data currently used, the Committee can only urge the Province to move as quickly as possible into the adoption of universal market value assessment, whatever its transitional consequences for the resource equalization grant.

The Committee also notes that, quite apart from the problems with assessment data used for this grant, it also fails to recognize the real difference in value to a municipality between a dollar of residential assessment and a dollar of commercial or industrial assessment. At present, there is a province-wide split mill rate between these two major types of assessment of 15 per cent. In other words, it should make a difference in terms of tax base comparisons what the variations in assessment mix are. Yet, these are ignored at present. It is of some significance, however, that

this problem will disappear with the proposals for local tax reform whereby a single mill rate would be applied to taxable assessment.

The new explicit equalization grant paves the way for the future dismantling of numerous equalizing measures in conditional grant programs. Indeed, on several occasions in this Report, the Committee has already recommended that this be done forthwith. While we have demonstrated why the existing forms of equalization are implicit and imperfect in their impact, the Committee does not wish to imply that it gives the present resource equalization grant a clean bill of health. In fact, a good deal is wrong with it. However, we believe that its worst features will be eliminated when universal market value assessment is introduced. For these reasons the Committee recommends:

THAT THE PROVINCE MOVE QUICKLY TO PROPERTY TAX REFORM AND THE USE OF UNIVERSAL MARKET VALUE ASSESSMENT, THEREBY STRENGTHENING THE FOUNDATION OF THE RESOURCE EQUALIZATION GRANT. 10.14

The Committee believes that the removal of the equalization components in conditional grant programs should not precede the improvement through tax reform of the resource equalization grant's eligibility criteria. We can only recommend greater emphasis on the resource equalization grant once it is based on more reliable and comparable assessment data. Obviously, the distributional

changes that will occur in the R.E.G. with market value assessment will be far more overt and dramatic once the grant has become more significant, while equalization in conditional programs is more obscure.

The Committee also examined some lesser though significant problems of the resource equalization grant. For one, the grant is only payable to lower-tier municipalities although assessment deficiencies also occur at the upper tier. Presently the net general dollar levy for the R.E.G. is defined to include the levy for upper-tier purposes. In other words, a lower-tier municipality with a tax base deficiency gets grant on all the funds it raises including those for the upper tier. At the same time, it is instructed to apply the portion of the grant related to the upper-tier levy against the upper-tier requisition. This is at best a cumbersome procedure. The Committee thinks that it would be more logical and simpler, and therefore preferable, to recognize the degree to which pooling of resources does take place in respect of upper-tier functions by making separate equalization grants payable to both tiers.

This approach has the additional benefit of removing an existing inequity between taxpayers in different upper-tier worlds. At present, taxpayers living in different upper-tier areas with varying tax bases have different mill rates for the same dollar level of upper-tier expenditure. Taxpayers living in a resource-

poor upper tier, even those living in a resource-rich area municipality, are paying a higher mill rate per unit of expenditure than those taxpayers living in a resource-rich upper tier. At present, these external inequities between upper tiers are not addressed.

Since a two-tier R.E.G. structure would lead to the payment of grants to both lower and upper-tier municipalities on the basis of their respective taxing requirements, there would no longer be any need to calculate an assessment equivalent of the grant for apportionment purposes. In addition, the revised grant structure eliminates the requirement on lower-tier municipalities to allocate a portion of the R.E.G. to finance upper-tier requisitions. The two-tier R.E.G. Would therefore achieve equality of upper-tier mill rates, while at the same time simplifying the apportionment process and grant administration.

We considered the idea of having separate standards, in order that separate equalization would occur among upper-tier governments which would undoubtedly share a higher average standard than the average for the whole province. However, in the end, we had to reject this artificial distinction since it would have constituted a first step towards an unduly stratified grant.

For the above reasons we recommend:

THAT THE RESOURCE EQUALIZATION GRANT BE RE-
STRUCTURED INTO A GRANT PAYABLE TO BOTH THE UPPER AND

10.15

LOWER TIER OF MUNICIPAL GOVERNMENT, USING THE PROVINCIAL AVERAGE AS STANDARD IN BOTH CASES.

Of course, the implication of Recommendation 10.15 is that the levy base for R.E.G. and support grant purposes would be the same. Moreover, having recommended a two-tier resource equalization grant, the Committee can refer back to its earlier comments on the levy base under the general support grant. We wish to emphasize, though, that the upper-tier R.E.G. on special purpose requisitions should be applied against these special requisitions rather than the general requisitions.

The Committee also wants to deal with two remaining factors that play a role in the resource equalization and other unconditional grants. First of all, the population count has become more important than ever before. The per capita grants alone disburse some \$170 million this year. What is more, in combination with assessment data, inaccurate or incomplete census data can be detrimental in deciding whether or not a municipality should be eligible for a resource equalization grant and, if so, at what rate of grant. This makes it extremely important to all municipalities, and rightly so, that the Province ensure an accurate count with a minimum of reliance on absent individual residents for compliance with paperwork follow-up. Even the more conscientious citizen may not realize the significance to himself and his municipality of an absentee pamphlet in his mail box. Of less significance, but nevertheless important, is

an accurate count of the number of households.

This brings us to the concept of grants population. The Committee supports the idea that the Province go beyond raw population data and recognize to some degree unusual circumstances such as a high proportion of temporary residents and the existence of serviced and non-serviced military bases. Especially desirable was the decision to introduce this modified population count as universal for all grant purposes, where previously the data used by various ministries were quite inconsistent and often out of date. As we said before, however, much greater confidence has yet to be established in the process by which population and household data are gathered before much greater reliance can be confidently placed on the unconditional grants in which these data feature - an inevitability in the event of significant deconditionalization and grant rationalization.

Therefore we recommend:

THAT THE PROVINCE REVIEW ALL PROCEDURES
PERTAINING TO THE POPULATION CENSUS AND HOUSEHOLD COUNT
WITH A VIEW TO ACHIEVING GREATER ACCURACY IN RECOGNITION
OF THEIR SIGNIFICANCE FOR GRANT CALCULATIONS,

10.16

As we have mentioned, the Government was wise to go easy with the resource equalization grant because of the lack of comparability and reliability of equalized assessment data on which the

grant is based. The ultimate introduction of the more comparable market value assessment will remedy this situation. This in turn suggests that the Province reconsider its pro-rating factor of 60 per cent and the arbitrary maximum of a 25 per cent grant rate. Also we would recommend that this be done in conjunction with the elimination of "equalizing" features in the conditional grant programs.

The Committee thinks that removal of the R.E.G. ceiling is preferable to a further enrichment of the Northern Ontario special support grant. The latter grant is already close to the ceiling for the R.E.G. and goes to all Northern municipalities regardless of their fiscal capacity. We think that the poor municipalities in the North need greater recognition of their assessment deficiencies than is feasible under the 25 per cent ceiling. To put more new money into the Northern Ontario special support grant would favour their richer counterparts in the North, and defer greater equity in the North and generally in the province. We recommend:

THAT, FOR PURPOSES OF THE RESOURCE EQUALIZATION GRANT, SUBSEQUENT TO OR IN CONJUNCTION WITH MARKET VALUE ASSESSMENT ON A PROVINCE-WIDE BASIS, THE PARTIAL RECOGNITION OF ASSESSMENT DEFICIENCIES AT 60 PER CENT AND THE 25 PER CENT RATE CEILING BE RECONSIDERED. 10.17

The Unconditional Grants Under Deconditionalization

The overall scenario the Committee has drawn up in this Report involves a considerable degree of conditional grant eliminations and prescribes a much greater emphasis on unconditional assistance. The reasons for the desirability of this change have been amply stated by the Committee. Nevertheless, the Committee recognizes that, once unconditional grants become the major transfer vehicles, our review of these grants may not serve as an adequate guide for this new dimension. We have reviewed the unconditional grants in their current form and we are convinced that new demands on these grants are inevitable if they are to replace existing conditional transfers.

The Committee has no doubt that considerable financial shifts are inherent in our proposals whatever is done with unconditional replacement financing. Such shifts are not necessarily a bad thing. Many of them are likely to be quite desirable. But then again, shifts are also inherent in the proposed tax reforms. It is very likely that the reforms in the property tax by themselves will, as a by-product, raise serious questions about some of the existing conditional grant programs and their distributional patterns. In saying this, the Committee merely wishes to suggest that there is nothing uniquely sacrosanct about these distributional patterns and that the Province should not feel obliged to preserve these patterns.

The magnitude of the financial shifts and changing pattern of financial burdens at the local level that is acceptable to the Government is ultimately a political decision. As a Committee we anticipate a reformed property tax base and a system of full equalization to a new provincial average standard for a municipal sector with highly diverse preferences and service needs. The combination of what is expected to be a more comparable and reliable tax base with a system of full equalization permits the Committee to be reasonably confident about the impact of reforms whatever the financial shifts. We would only have to account for major variables which emanate from the extreme diversity of the real world in other respects. This, however, is exceptionally difficult to do.

There are economies and diseconomies of scale in service delivery. Nobody has satisfactorily answered the questions pertaining to an optimum size municipality, though a number of 200,000 people has been mentioned more than once. To some degree, levy-based unconditional grants address this problem, as the levy presumably reflects fiscal hardships associated with diseconomies, be they related to excessive density or its opposite extreme. In such places, the levy has a greater relative weight than the number of people. Metro would be a clear example.

There are disproportionate burdens associated with excessive road mileage relative to population and assessment, or associated with terrain problems for water, sewerage, and road

building relative to other communities. Again, the levy-based unconditional grants would be a superior vehicle (compared to per capita grants) in their recognition of these factors as reflected in the levy.

There are powerful differences in growth rates among municipalities, ranging from actual declines to very rapid expansion. Especially under conditions of rapid growth, the demands for local spending on infrastructure precede the people and the tax base. The existing unconditional grants can only capture these variations to a limited degree. Neither do we have any illusions that truly unusual circumstances can be satisfactorily dealt with through universal formula unconditional grants. Nor would it be realistic to place such demands on the unconditional transfer vehicles.

Nevertheless, we are confident that the unconditional grants can be designed as a satisfactory major vehicle for assistance in lieu of many existing conditional grant programs. We suggest that major reforms to the structure be simulated in conjunction with property tax reform, due to the latter's profound impact in its own right and the degree to which it frees up the resource equalization grant as a major grant vehicle. We can visualize that many of our recommendations will adversely affect the really small municipalities, notably in respect of roads, and we suggest that, after assessment of the impact of tax reform on them (which could be favourable),

consideration be given to, for instance, an indexation of parameters of unconditional grants which gives elementary recognition to a limited number of potential hardship factors, e.g. miles of road relative to assessment. This may prove unnecessary, but could be considered.

We wish to comment on a matter related to this concern, namely the possibility that the Government might prefer to adopt our Recommendation 5.3 which, in effect, retains conditional grants for roads and bridges in municipalities with populations under 5,000. In this event the grant structure that we have recommended in this Chapter would have to be altered so as to reduce the overall level of unconditional assistance to these municipalities relative to those over 5,000 in population.

The options are infinite and the need for major reform and rationalization of the grant structure is urgent. In the final analysis, therefore, the Committee wishes to offer its recommendations on their own merit in the belief that the Province, with adequate research and imagination, will be able to implement a truly significant unconditional grants structure as a major transfer mechanism and in doing so greatly enhance equity, autonomy and accountability in the municipal sector.

CHAPTER 11

MISCELLANEOUS GRANTS

In this Chapter we review some thirteen grant programs not dealt with in other chapters. Total budgeted assistance for these programs in 1977-78 exceeds \$53 million. Some of these programs, like Crown Contributions for Judge's Plans, involve very small amounts (i.e. \$23 thousand), while others such as the Regional Priorities Program involve very large amounts (i.e. \$33.7 million). Some programs like the waste recycling experiment in Metro Toronto are non-recurring while others like the St. Clair Parkway Commission appear to be long standing and permanent.

With the possible exceptions of the Regional Priorities and The Drainage Act programs, all the programs reviewed in this Chapter have one common characteristic: they do not extend to a large group of municipalities. In other words, they are "localized". For example, grants under the flood control program are made to a few municipalities in southwestern Ontario. And Crown Contributions for Judge's Plans are found in only a few parts of the province. Other programs such as Experimental Waste Recycling, Disaster Relief, Special Emergency Assistance, Municipal Language Training, Townsite Development and Compensation for Loss of Revenue grants, by their

nature, directly affect only a handful of municipalities. To take three other examples, the Derelict Motor Vehicles Program benefits only northern municipalities, the St. Clair Parkway Commission grants are made to four municipalities in southwestern Ontario and the Agricultural Drainage Program affects only municipalities in eastern Ontario. Only the grants made under The Drainage Act of the Ministry of Agriculture and Food are paid to a sizeable number of municipalities. Even in this case, less than 160 municipalities received such grants in 1975-76.

We proceed to describe and review these miscellaneous programs. They will not be discussed in the order in which they are listed in the table in Chapter 2 but rather on the basis of their interrelationships with one another.

The Drainage Act

Assistance under this Act is provided to municipalities for part of the cost of works that drain agricultural lands, including the costs of constructing embankments, dams and reservoirs. The program serves to lessen or eliminate property damage from flooding resulting from the drainage of agricultural lands into natural watercourses or artificial drains.

Municipalities in counties or regional governments receive one-third of the costs that are assessed against agricultural land while municipalities in territorial districts or provisional counties receive two-thirds. In unorganized territories, the grant rate can be as high as 80 per cent. Eligible projects must be approved by the municipal council and be in accordance with conditions laid down in the Act. Total Provincial assistance provided under this program for 1977-78 is budgeted at \$7.0 million.

Because drainage work on a given private property may benefit several other riparian as well as non-riparian owners, it is necessary to share costs among the beneficiaries. The grant facilitates this process by lowering the cost that must be faced by an individual farmer. In principle there are two reasons for a Provincial-municipal grant in this area. First, the Province has traditionally had an interest in the agricultural industry per se. Second, where the benefits of drainage works spill over into neighbouring municipalities, the Province also has an interest. Municipalities have an interest where local property is affected. For these reasons the Committee recommends:

THAT ASSISTANCE UNDER THE DRAINAGE ACT BE
RETAINED.

11.1

Agricultural Drainage

This program is an extension of The Drainage Act and was introduced in 1966. It is designed to enable farmers in the 11 counties in eastern Ontario to expand the livestock industry through planting crops with higher yields.

The Province, by Order-in-Council, provides a grant rate of 33 1/3 per cent - in addition to the normal 33 1/3 per cent rate under The Drainage Act - on shareable costs. Conditions for eligibility and the definitions of shareable costs are the same as those for The Drainage Act grants. The federal government will reimburse the Province for 50 per cent of its expenditures for drainage works under The Federal-Provincial Agricultural and Rural Development Agreement (ARDA).

The Province also gives courses to farmers on increasing crop yields to maximize income and provides them with plans and advice on tile drainage.

This program is inextricably linked to the ARDA program which is designed to stimulate economic development in the agricultural industry in selected parts of the province. In view of the national concern and provincial interest and responsibility in this area, we do not believe that this program should be altered at this time. Accordingly, we recommend:

THAT THE GRANTS MADE UNDER THE AGRICULTURAL
DRAINAGE PROGRAM BE RETAINED.

Flood Control

This program provides for the protection of agricultural lands in southwestern Ontario from flooding due to high water levels in the Great Lakes. Under a federal-provincial agreement signed in 1974, the costs of flood control operations and facilities are shared on a 45 - 45 - 10 per cent basis among the federal, Provincial, and local governments, respectively.

Local conservation authorities are designated as implementing agencies under a senior Joint Committee comprised of two representatives from the federal government and two representatives from the Province. Under the agreement, the Province will subsidize the cost of such activities as constructing permanent dikes, administration, salaries and expenses of certain Provincial employees, preparation of plans and specifications, calling of contracts, construction work, purchase and handling of materials and supplies, hiring of machinery and equipment, and the acquisition of rights-of-way not on Crown land.

While subsidies are paid through the Ministry of Agriculture and Food, the Ministry of Natural Resources provides the technical and administrative expertise required for the construction and/or maintenance of flood control structures through the conservation authorities. The resident engineer responsible for this program submits expenditure invoices to the Ministry of Agriculture and

Food which reimburses the conservation authority for 90 per cent of the eligible costs.

The Committee notes that this program provides assistance which is localized and has a limited time horizon.

For these reasons the Committee recommends:

THAT THE FLOOD CONTROL PROGRAM BE ELIMINATED 11.3
AND THE ACTIVITIES UNDER IT BE CARRIED OUT BY THE
CONSERVATION AUTHORITIES,

We would like to make it explicit that the costs of the activities transferred by this recommendation will be supported by the Province in the same manner as the costs of conservation authorities. Accordingly, we recommend:

THAT PROVINCIAL SUPPORT FOR FLOOD CONTROL 11.4
ACTIVITIES BE THE SAME AS THAT IN RECOMMENDATIONS 4.12,
4.13 AND 4.14.

Crown Contributions for Judge's Plans

This program provides assistance under The Registry Act towards the cost of surveys. The surveys improve lot descriptions for purposes of clarifying the legal title to properties that are an issue before a court. In 30 of the Province's registry areas, the subsidization of survey costs is made directly to individuals

under The Land Titles Act (through the land titles fund) and The Boundaries Act. In other registry areas "Judge's plans" may be required in cases where a property owner dies, where it is unclear who owns the property, where a municipality may express an interest in acquiring the property, or where there is a dispute between the individual and the municipality over the ownership of the property. In these cases, a municipality may request the Director of Land Registration in the Ministry of Consumer and Commercial Relations to commence a Judge's plan.

The Director appoints a local solicitor as his agent to obtain a preliminary order from a court for a new survey to be undertaken. Under this order, a surveyor is appointed to prepare a draft plan, the total costs are fixed and the sharing of the costs amongst the levels of government is established. The Province's share may vary up to 100 per cent but is normally 25 per cent. In the latter case the county pays 50 per cent and the area municipality in the county pays 25 per cent of the costs. The municipality can recover its costs via a direct levy on the specific owner under Section 90 of The Registry Act.

Given that subsidies for survey costs under The Land Titles Act and The Boundaries Act could be extended to all registry areas in the province, the Committee fails to see the rationale for this grant. Indeed, we understand that the Ministry of Consumer and Commercial Relations is presently discouraging

the use of Judge's plans as a matter of practice. Accordingly, we recommend:

THAT CROWN CONTRIBUTIONS FOR JUDGE'S PLANS 11.5
BE ELIMINATED.

Waste Recycling Experiment

This is a one-time experimental project that is being conducted in Metro Toronto to generate electricity from burned garbage. The project is being developed through the joint co-operation of the Provincial Government, Ontario Hydro and Metro Toronto. Under this arrangement the Province grants money to Ontario Hydro to cover the cost of conversions necessary to the Lakeview Generating Station. It also makes a grant to Metro Toronto to cover approximately 13 per cent of the cost to Metro of building a waste separation plant in Etobicoke. Given that the planned construction costs of the Etobicoke plant will exceed \$26 million, the grants will ultimately exceed \$3.4 million. The transfers to Metro Toronto are made as construction expenditure is incurred; payments of the grant for 1977-78 are budgeted at \$400,000.

The project is experimental in nature and will clearly have potential province-wide benefits. It will terminate automatically when construction is completed.

Derelict Motor Vehicles

Under this program the Province subsidizes municipalities for the collection and transportation of motor vehicle hulks to processing plants for the reclamation of reusable materials. It also subsidizes municipalities for developing new vehicle collection sites or upgrading existing ones and establishing long term self-sustaining programs to clean up the visual pollution created by such vehicles.

The Province pays 100 per cent of the cost of starting up operations and, until such time as the program becomes self-sustaining, 100 per cent of the operating and administration costs. While all municipalities are eligible, the program affects only municipalities in northern Ontario. In southern Ontario, private sector activity has proven to be adequate in solving the problem. All revenues earned by a municipality in the operation of its program are deposited in a fund to be applied towards improving sites when the program becomes financially viable.

Because the program has now largely accomplished its original purpose, the Committee recommends:

THAT THE DERELICT MOTOR VEHICLES PROGRAM BE
ELIMINATED.

11.6

St. Clair Parkway Commission

The St. Clair Parkway Commission was established in 1966. Today it comprises two members each from Lambton County and the City of Sarnia, one member each from Kent County and the City of Chatham and five members appointed by the Province. Its main aim is to provide recreation facilities such as parks, golf courses and marinas that complement those provided by the member municipalities and to foster tourism in the area.

The Province provides grants of 75 per cent of the eligible capital expenditures for the types of facilities described above and grants of 50 per cent of eligible operating expenditures. It also sets aside \$187,500 per annum for land acquisition by the Commission. In 1977-78 total grants to the Commission have been budgeted at \$702,000.

The member municipalities' shares of both eligible capital and operating expenditures — net of the Province's grants and any revenues which the Commission collects through admission fees — are as follows: Lambton County 35%; City of Sarnia 35%; Kent County 7 1/2%; Chatham City 22 1/2%. These percentages are reviewed annually in order to ensure that they are consistent with the proportions of benefits that accrue to each member municipality. The Commission presents a requisition to each of the two member counties which, in turn, apportion it as part of their general purpose requisitions on their constituent municipalities. The cities levy a

mill rate for general purposes to finance their share of the Commission's requirements.

The Committee considered the alternative of a Provincial takeover of the Commission's activities but rejected it because the benefits appear to be largely local. Instead, we would prefer to see the responsibilities of the Commission incorporated in those conservation authorities whose territories overlap with it. Accordingly, we recommend:

THAT THE ST. CLAIR PARKWAY COMMISSION BE 11.7
ELIMINATED AND ITS ACTIVITIES BE TRANSFERRED TO THE
APPROPRIATE CONSERVATION AUTHORITIES,

Bearing in mind our recommendations in Chapter 4 pertaining to conservation authorities, Recommendation 11.7 implies that the capital grant rate be reduced from 75 per cent to 50 per cent and that operating grants be eliminated. Moreover, we note that the transferred recreation activities should be subject to the review of the parks and recreation role of the conservation authorities that was required under our Recommendation 4.15.

Regional Priorities

This program was established in 1974 and is designed to stimulate economic development and growth in areas of the province with growth potential and to provide assistance for projects of a

capital nature that will promote these objectives. Federal sharing of assistance through DREE is a major feature of the program since the General Development Agreement signed between DREE and the Province in 1974 recognized the stimulation of northern and eastern Ontario to be a matter of national significance. While some view the program as purely Provincial in nature, the impact of the regional priorities program is frequently the same as a grant for capital facilities of direct benefit to municipalities. For example, much of the assistance under the program is for projects such as sewerage facilities, roads and infrastructure related to industrial parks.

The shares of costs are negotiated. Where DREE is involved, the federal share is 50 per cent and the Province determines the Provincial-local shares on an ad hoc basis. The Province also determines the Provincial and municipal shares where no DREE money is involved. The assistance, in either case, is administered mostly by the Ministry of Northern Affairs (under the captions of community priorities and regional priorities) and the Ministry of Treasury, Economics and Intergovernmental Affairs. Total budgeted assistance by these two ministries is \$33.7 million in 1977-78.

Continuation of this program in its present form would be in conflict with the general direction of the Committee's principles and recommendations. On the other hand, the complications of DREE agreements and the role of the Province in stimulating economic development are recognized. The Committee therefore

recommends:

THAT THE REGIONAL PRIORITIES PROGRAM BE REVIEWED 11.8
FOLLOWING DECISIONS ON THE RECOMMENDATIONS OF THIS REPORT
AND BE REVISED TO APPLY ONLY TO SPECIFIC INITIATIVES THAT
CAN NOT BE ACCOMMODATED BY UNCONDITIONAL OR CONDITIONAL
GRANTS TO MUNICIPALITIES OR THROUGH DIRECT PROVINCIAL
EXPENDITURES UNDER OTHER PROGRAMS.

Townsite Development

This program, presently administered by the Ministry of Northern Affairs, was started in 1956-57 to accommodate resource development primarily in unorganized territory. To this end it provides support for the construction of homes and the development of physical infrastructure such as sewer and water systems, community facilities and schools.

The financing arrangements are negotiated between the Province and the industry affected and are very flexible; negotiations include not only the rate of cost sharing but also the question of which items will be eligible. The cost of the program, for which there is no federal participation, approximated \$2 million in each of the fiscal years 1975-76 and 1976-77. To the extent that this program relates to unorganized territory it does not represent a grant to municipalities.

Since the objective of this program is similar to that of the regional priority program, the Committee recommends:

THAT THE TOWNSITE DEVELOPMENT PROGRAM BE
INTEGRATED WITH THE REGIONAL PRIORITIES PROGRAM.

11.9

Compensation for Loss of Revenue

Under The Ontario Unconditional Grants Act, 1975, grants or loans are made to individual municipalities where a substantial loss in revenue occurs as a result of a change in legislation, an unforeseen commitment imposed on a municipality, or circumstances beyond the municipality's control and of an unusual or exceptional nature. Any assistance is of a one-time nature and is made under such terms and conditions as are considered necessary in the circumstances by the Provincial Treasurer. For 1977-78 the amount budgeted for this program is \$2.5 million.

Clearly this grant is generated by two quite different factors: deliberate changes in Provincial legislation and uncontrollable or unforeseen events. The Committee believes that any legislative changes that affect municipalities ought to incorporate transitional features which would eliminate the need for this grant. For the rest we believe that grants for unpredictable circumstances could be merged with other programs such as those that compensate municipalities for local disasters. Before

making a recommendation on this grant we would like to discuss two other related programs, special emergency assistance and disaster relief.

Special Emergency Assistance

In 1973 the Province signed a special flood control agreement with the federal Department of Regional Economic Expansion (DREE) to share the costs of constructing and maintaining dikes necessary to protect agricultural lands bordering Lake Erie in the municipalities of Pelee, Harwick and Mersea. Under this agreement costs were shared 45 per cent by the federal government, 45 per cent by the Province and 10 per cent by the affected municipalities. This program was described earlier in this Chapter under the heading of "Flood Control".

This program was supplemented by a Provincial special emergency assistance program, enacted by Order-in-Council, which is administered by the Ministry of Treasury, Economics and Intergovernmental Affairs.¹ The special emergency assistance program provides assistance towards the cost of works of an emergency nature such as dike and road repairs and pumping that are necessitated by flooding and erosion as a result of high

1. For more details on the background of these two programs, see the description of the "Flood Control Program" in the Appendix.

water levels in the Great Lakes. Under the program, the municipality is eligible to receive 80 per cent of the final actual costs of the works, net of any other Provincial grant contributions made or to be made in connection with such works. In 1977-78, \$1.5 million is budgeted for this program.

Disaster Relief

In the event of a local disaster, a relief fund is set up by the municipality and private citizens in the area affected. The Province has established a policy of matching dollar for dollar the contributions from the public at large to these funds. In recent years two exceptions to this policy have been made to recognize the extraordinary severity of the Grand River flood and the fire in the Town of Cobalt. In these cases Provincial assistance was based on a different formula which generated \$2.50 and \$2.70 for every dollar raised in the respective communities. For 1977-78, \$300,000 has been budgeted for this program.

This program is purely a Provincial one and should not be confused with the federal government's formula for sharing Provincial expenditures on major disasters where costs exceed a \$1 per capita threshold applied to the Province's population.

Since local relief funds are basically supported by private sources, the assistance does not represent, in strict

terms, a Provincial-municipal grant. Even if it did, we feel this is one area where the Province should assume a responsibility. Accordingly, we recommend:

THAT THE DISASTER RELIEF PROGRAM BE RETAINED. 11.10

As a step towards greater consolidation, the Committee believes that the Disaster Relief Program should incorporate grants in the Loss of Revenue Program and those made under the Special Emergency Assistance Program. Accordingly, we recommend:

THAT GRANTS UNDER THE SPECIAL EMERGENCY 11.11
ASSISTANCE PROGRAM AND GRANTS UNDER THE LOSS OF REVENUE
PROGRAM THAT ARE RELATED TO UNPREDICTABLE EVENTS BE
ELIMINATED THROUGH CONSOLIDATION IN THE DISASTER RELIEF
PROGRAM.

It will be recalled from our earlier discussion that we believe some of the grants under the Loss of Revenue Program related to changes in Provincial legislation should be treated in a different manner. We therefore, recommend:

THAT THE GRANTS FOR LOSS OF REVENUE DUE TO 11.12
CHANGES IN LEGISLATION BE ELIMINATED AND INCORPORATED
AS TRANSITIONAL ADJUSTMENTS IN THE SPECIFIC LEGISLATION.

Municipal Language Training and Translation

Through the Ministry of Treasury, Economics and Intergovernmental Affairs, the Province provides assistance for the cost of French language training of municipal civil servants (including police) in the Ottawa-Carleton area under a special federal-Provincial-municipal agreement. Under this agreement, costs are shared as follows: 40 per cent federal, 40 per cent Provincial and 20 per cent municipal. For 1977-78 the budgeted costs of this program are \$300,000. A separate Provincial-municipal agreement has been entered into with the Regional and area municipalities of Sudbury for language training and translation of documents.

In late 1977, the Province announced a new formula for cost sharing language instruction and translation services for municipalities that declare themselves to be officially bilingual. In the first year, the formula provides for 80 per cent of eligible costs from the Province, but this rate is reduced by 20 percentage points in each of the succeeding four years.

The Committee concurs with the principle underlying the new formula that will result in the automatic termination of the grant for individual municipalities after five years. The Committee believes that, in the long run, any municipality declaring itself to be bilingual should assume complete responsibility for such a decision — including its financial consequences.

However, due to the present circumstances that make the provision of services in both official languages a high national priority in areas where there are substantial numbers of francophones in Ontario, the Committee prefers to retain the present grant. The Committee therefore recommends:

THAT THE PROVINCIAL ASSISTANCE FOR MUNICIPAL
LANGUAGE TRAINING AND TRANSLATION BE RETAINED AND THE
PROGRAM BE REVIEWED AFTER FIVE YEARS.

11.13

CHAPTER 12

ADMINISTRATIVE PROCEDURES

In reviewing the administrative procedures associated with the many grant programs studied by the Committee, one will find considerable complexity and little consistency in grant administration procedures either between ministries or even within ministries. The recommendations made in this chapter to a large extent are independent of those recommendations contained in other parts of the Report. The Committee is of the opinion that implementation of its other recommendations will lead towards simplification on several fronts, including administrative procedures.

Information

It is essential that an adequate level of understanding and communication between the municipalities and the Province be maintained. This can be accomplished through the development of management information systems that provide information on both the level of service being provided and the cost of maintaining or changing this now or in the future. These need not be complicated and should support the needs of both the municipalities

and the Province.

For those grants that remain conditional this can form the basis for their allocation while for those programs where grants are eliminated, the information can be used to monitor the aggregate or individual standard of service provided. Information on the cost of internal activities is useful to municipal managers for comparison with others and to both the municipalities and the Province in identifying those activities where there is potential for productivity or efficiency improvement and for research into new technology or operational strategies.

We therefore recommend:

THAT THE PROVINCE IN COOPERATION WITH THE
MUNICIPALITIES ENSURE THAT APPROPRIATE INFORMATION
SYSTEMS ARE DEVELOPED FOR MUNICIPAL PROGRAMS TO PROVIDE
AN INDICATION OF THE LEVEL OF SERVICE PROVIDED AND THE
COST OF PROVIDING IT,

12.1

Administrative Procedures

This Report recognizes that certain existing specific grants will continue and that there is still a place for the use of new specific grants to municipalities to stimulate municipal action in the future. It is illogical that the situation continue

whereby individual ministries produce new municipal grant programs or make changes to existing ones with no recognition of the effect of the rules and regulations on municipal accounting systems, staff resources, or cash flow requirements. The Committee recognizes that different procedures are required for differing types of grants (i.e. unconditional, conditional, or one-time). However, we recommend:

THAT THE PROVINCE DEVELOP SIMPLE AND CONSISTENT GRANT ADMINISTRATION POLICIES AND PROCEDURES, 12.2

As with grant administrative procedures, over the years as individual grant programs have been implemented, the initiating ministries have introduced some type of audit procedure. Audit is concerned with the eligibility of expenditure under a particular grant as well as administrative practices. It is normal therefore for individual Provincial ministries to maintain their own audit staff who are familiar with the programs of that ministry. The Committee recommends:

THAT THE PROVINCE COORDINATE THE DEVELOPMENT OF AUDIT PRACTICES CONSISTENT WITH RECOMMENDATION 12.2, 12.3

In some cases Ministry audit practice and grant eligibility criteria have caused the development of accounting systems which differ from and are in addition to the normal financial and

management systems of the municipality. The Committee is concerned with duplication of effort and with the potential for inconsistency of information that may result from the maintenance of a variety of systems.

We therefore recommend:

THAT IN ESTABLISHING GRANT REGULATIONS THE
PROVINCE AVOID THE DEVELOPMENT OF DUPLICATE FINANCIAL
SYSTEMS.

12.4

Grant Cash Flow

Substantial improvement has taken place in the cash flow of grants to municipalities in the past ten years. However, the Committee believes that it is appropriate to set down the major elements desired in the grants payment process.

We therefore recommend:

THAT FOR GRANTS WHERE THE MUNICIPAL ENTITLE-
MENT IS PRE-DETERMINED, PAYMENTS BE MADE ACCORDING TO
A REGULAR SCHEDULE ANNOUNCED IN ADVANCE.

12.5

The Committee recognizes that some grants relate to specific one-time expenditures which may lack certainty in terms of cash flow. These will, in large measure, relate to construction projects.

The Committee recommends:

THAT IN THE CASE OF GRANTS TOWARDS ONE-TIME	12.6
PROJECTS, PAYMENTS BE MADE "ON ACCOUNT" BASED UPON	
CLAIM FORMS SUBMITTED BY THE MUNICIPALITY.	

CHAPTER 13

THE RECOMMENDATIONS: A SUMMING UP

The Committee began its deliberations by considering the requirements for a sound, equitable, and efficient system of Provincial-municipal transfers; this led to our statement of the nine principles upon which any grant system should be based. We next considered a number of "strategies for reform" that are frequently discussed in the literature on public finance.

As the present Report makes clear, there is no one strategy that stands out as best. While purists may wish that the Committee could have proposed a single daring plan, the more pragmatic reader will understand that simplicity has to be balanced off against numerous other considerations. The Committee's approach, accordingly, was to treat individual program areas separately, trying to find the best combination of reforms that would meet our general objectives.

The transfer of responsibility was one approach that loomed large, nevertheless. We are of the opinion that the "entanglement" of responsibility is a real problem in the existing grant structure, and that a streamlining will have to occur if local autonomy and accountability are to be meaningful

concepts. We concluded that the most serious examples of entanglement are to be found in the functional area of income maintenance. We have recommended that municipalities be relieved of the financial and administrative responsibility for employable persons, and that this responsibility be transferred to the federal government. The Committee recognizes that the recommendation entails difficult negotiations between the Province and Ottawa but we see it as the most effective way to create a rational and integrated manpower and employment program. We believe that a number of health programs should be centralized at the Provincial level in order to establish a more coordinated delivery system and that, once this has been achieved, decentralization to local government according to some specified schedule should be considered. In sum, we have recommended that 12 programs be transferred upward; this will effectively eliminate grants worth \$220 million in 1977-78.

The Committee has been impressed with the merits of deconditionalization. We think that the time is ripe to slash away many of the more complicated and often outdated conditional grant formulas. We have, for example, recommended the deconditionalization of several of the road grants. We have also stressed the desirability of placing more emphasis on the uncondi-

tional grants that exist at present; we have suggested full implementation of the resource equalization grant and greater reliance on the general support grant. Our proposals would continue the shift in the grants mix that has become evident since 1973-74. In 1977, 28 per cent of the grants in dollar terms are unconditional; under our suggested reforms, roughly 60 per cent would fall into this category. Under our recommendations 24 conditional grants worth \$381 million would be deconditionalized.

We have also laid considerable stress on the rationalization of individual programs. We favour the removal of equalization provisions from the conditional grant programs, and their incorporation into an explicit program, so that the overall "equalizing effect" is known and measurable; we favour the standardization of grant rates so that the distortionary effect of conditional programs is reduced; we favour a reduction in the support rate for most capital projects so that local councils have greater reason to weigh their decisions carefully, and we favour the consolidation of minor grants into larger ones. Such reforms may not always appear dramatic; nevertheless, their cumulative effect will be a considerable improvement over the existing system.

Perhaps the impact of the strategies we have employed can best be summarized in the two tables which follow. Table 1 shows how our recommendations have changed the broad financial structure of the grant system while Table 2 depicts the change in the overall number and composition of grant programs.

TABLE 1
IMPACT OF THE COMMITTEE'S RECOMMENDATIONS
ON PROVINCIAL - MUNICIPAL TRANSFERS

	<u>Conditional</u> (\$ million)	<u>Unconditional</u> (\$ million)	<u>Total</u> (\$ million)
<u>PRE-REFORM TRANSFERS</u> ¹	1,102	436	1,538
<u>RECOMMENDED CHANGES</u>			
1. Transfers of financial responsibility			
a) Grants	- 220 ²		- 220
b) Municipal share of eligible costs		- 84 ²	- 84
2. Deconditionalization of Grants	- 381	+ 381	0
3. Rationalization ³	- 8	+ 8	0
Total Recommended Changes	- 609	+ 305	- 304
<u>POST-REFORM TRANSFERS</u>	<u>493</u>	<u>741</u>	<u>1,234</u>

1. Source: See Table in Chapter 2.
2. Reflects the shift in responsibilities to senior levels of government.
3. Rationalization includes standardizing grant rates and eligible expenditure bases (e.g. welfare and conservation authorities).

TABLE 2
IMPACT OF THE COMMITTEE'S RECOMMENDATIONS
ON THE NUMBER AND COMPOSITION OF
GRANT PROGRAMS

	<u>Conditional</u> (\$ million)	<u>Unconditional</u> (\$ million)	<u>Total</u> (\$ million)
<u>PRE-REFORM TRANSFERS</u> ¹	79	8	87
<u>RECOMMENDED CHANGES</u>			
1. Transfers of financial responsibility	- 12 ²	N/A	- 12 ²
2. Deconditionalization of Grants	- 24	N/A	- 24
3. Rationalization	- 11 ³	- 3 ⁴	- 14
Total Recommended Changes	- 47	- 3	- 50
<u>POST-REFORM TRANSFERS</u>	<u>32</u>	<u>5</u>	<u>37</u>

-
1. Source: See Table in Chapter 2.
 2. Reflects grants for activities which have been transferred to senior levels of government.
 3. Reflects the fact that eleven grants have been consolidated through incorporation in other grant programs.
 4. Reflects the recommendations to terminate per capita policing grants, per capita density grants and incorporate the loss of revenue grant in other programs.

We have examined the existing unconditional grant system in light of a substantial enrichment of unconditional transfers as existing grants are eliminated. In this process we considered the various measures of need in municipalities that might be used to ensure a more equitable distribution of grants. However, we are aware that no unconditional grant system can be devised to accommodate all problems and contingencies. Further consideration must be given to

- a) the maintenance of the present aggregate funding level under the recommended transfer system;
- b) the means of meeting emergencies and/or urgent emerging Provincial priorities;
- c) property tax reform which is touched upon in more detail below, and
- d) the need for an improved information base that will allow the Province to monitor performance rather than expenditures.

We recognize the fact that not all municipalities have the desire, need, or capacity to take over full responsibility for all the programs for which we have recommended deconditionality. Thus, in our alternative recommendation on road grants, we suggest the possibility of retaining such grants for municipalities of less than 5,000 population. In other instances, such as within the social services, we suggest that only the upper-

tier level of municipal government assume responsibility for certain functions.

Finally, we have stressed the importance of a thoroughgoing review of the administrative arrangements pertaining to all grants. While this has only been dealt with in general terms, we trust that the ministries will be persuaded to undertake such reviews on their own initiative.

In considering the various reform options, the Committee had to confront the very difficult question of re-assessment. This has been discussed at length elsewhere, but we believe that it needs to be re-emphasized: grant reform and tax reform are complementary exercises. Since assessment is important in a number of the shared-cost programs (as an adjustment for fiscal capacity) as well as in the resource equalization grant, a move to market value assessment will produce shifts in the distribution of grants. It is difficult at this time to suggest what kind of changes might occur. Nevertheless, it is important to be prepared to have a grants structure that is appropriate for the post-tax reform years. Some of our proposals are in fact predicated on the move to reformed property taxation. If, for whatever reason, tax reform does not proceed as scheduled, some of our proposals will clearly have to be modified. For example,

our preference for a consolidated and richer equalization program depends on the availability of a sound and clear measure of fiscal capacity. Without it we would have to give further thought to the whole question of equalization.

Although tax reform permits the Committee to consider specific parameters for the resource equalization grant, it poses problems for the structure of the other unconditional programs. The Committee has recommended an extensive deconditionalization of grants which implies that equivalent dollars will have to be channeled through the general support and per capita grants. It is impossible to say at this time what specific degree of reliance should be placed on each of them. All that has been suggested is that we prefer to place more emphasis on enrichments in the general support grants than on enrichments in per capita grants.

Tax reform dictates where the emphasis should be placed. Tax reform will clearly cause a number of shifts, with some municipalities experiencing a relative deterioration in their eligibility for grants. The Committee is convinced that the formulas of, and the weights attached to, the various unconditional grants will have to be adjusted to smooth out these short-term difficulties. In short, these unconditional grants will

have to be used to maintain a rough-and-ready kind of equity as property tax reform is implemented. Obviously, the kind of adjustments involved are not arguable on a priori grounds; they will have to be worked out experimentally as experience accumulates.

The interface between tax reform and grant reform has thus prevented the Committee from being as specific, in some respects, as might have been hoped. We have taken the view that a realistic appraisal of the forces at work requires flexibility. We are, nevertheless, confident of the many recommendations that we have made, and are convinced that their acceptance will enhance the soundness, equity and efficiency of the Provincial-municipal grant structure in Ontario.

As a conclusion to our Report, the Committee wishes to list its Recommendations:

- 4.1 *That the water and sewerage function be fully assumed by the municipalities in terms of arranging the construction, financing, and notably the operation of facilities, including those now operated by the Province.*

Alternatively:

- 4.2 *That the water and sewerage function be fully assumed by regional municipalities in terms of arranging the construction, financing,*

and notably the operation of facilities, including those now operated by the Province.

- 4.3 That the water and sewerage function be similarly assumed by all other municipalities where practicable.
- 4.4 *That the Ministry of the Environment continue a monitoring system by which it can identify needs for local action, set priorities for grant entitlements, and perform a technical advisory role to municipalities.*
- 4.5 *That the Ministry replace the existing programs with a capital grant for high-cost projects of up to 50 per cent of construction costs net of CMHC assistance and related in terms of eligibility to a threshold of per household capital costs.*
- 4.6 *That the assistance towards the repair and renewal of private systems similarly be up to 50 per cent.*
- 4.7 *That the existing 15 per cent grant for area works and to restructured municipalities be replaced by a 15 per cent grant for major projects in municipalities which do not qualify for assistance under recommendation 4.5.*
- 4.8 *That the supplementary grants to conservation authorities be eliminated.*

- 4.9 *That where the boundaries of counties or regions and existing conservation authorities are substantially coterminous, the functions of conservation authorities be transferred to upper-tier municipalities.*
- 4.10 *That municipalities be encouraged to appoint a greater proportion of elected representatives to conservation authorities.*
- 4.11 *That The Conservation Authorities Act be amended to require that preliminary conservation authority budgets be circulated to all member municipalities for comment in advance of the adoption of the conservation authority budget.*
- 4.12 *That all capital grants be consolidated at a uniform rate of 50 per cent.*
- 4.13 *That, where there is federal assistance involved, the Provincial share of a project be calculated on the basis of the net cost of the project.*
- 4.14 *That administration, operation, and maintenance grants to conservation authorities be eliminated.*
- 4.15 *That in the immediate future the parks and recreation role of conservation authorities be limited to providing intermunicipal populations with natural resource based recreational opportunities.*

For the longer term, the Committee further recommends that a review of the parks and outdoor recreation policy be undertaken with a view to the establishment of a much clearer and more rational division of responsibility between what should be clearly Provincial and clearly municipal functions.

5.1 *That the grants for local roads and bridges be eliminated and the funds be reallocated through unconditional grants.*

5.2 *That the Ministry develop appropriate mechanisms and information systems enabling it to discharge its ultimate responsibility to ensure minimum standards in respect of local roads that are an integral part of the provincial road network.*

Alternatively:

5.3 *That the Province proceed with elimination of local road and bridge grants for Metro, all regional governments, and all other municipalities with a population in excess of 5,000, while maintaining these grants for the rest of the municipal sector subject to Recommendation 5.4.*

5.4 *That the existing schedule of grant rates for local roads and bridges be replaced by a flat 50 per cent grant for all recipients.*

5.5 *That the development roads program be eliminated.*

- 5.6 *That there be no connecting link agreements with municipalities with a population in excess of 5,000 population, and where such agreements currently exist they be terminated.*
- 5.7 *That in municipalities below 5,000 population, the Province assume full responsibility for construction work on connecting links, in full consultation and agreement with the municipalities concerned; and that the municipalities assume full responsibility for maintenance on connecting links.*
- 5.8 *That the grant programs for traffic operating studies, needs studies and transportation or planning studies be eliminated, but the Ministry continue to supply technical advisory services wherever requested or needed.*
- 5.9 *That maintenance of Access Roads to Provincial Parks be a local responsibility.*
- 5.10 *That construction or reconstruction of Access Roads to Provincial Parks be the responsibility of the Province with the sharing of costs with municipalities on a negotiated basis.*
- 5.11 *That the program of urban expressway agreements be eliminated, and each level of government assume complete financial responsibility for its own expressways.*

- 5.12 That the Province maintain greater stability in the transit operating grant program.
- 5.13 That the Province maintain the existing transit capital grant for a period not to exceed 5 years, at which time a complete review of the capital and operating grant programs be undertaken.
- 5.14 That the Provincial program of assistance towards the cost of transit studies be eliminated but the Ministry continue to supply technical advisory services wherever requested or needed.
- 5.15 That the current arrangements for demonstration projects be continued.
- 5.16 That the Province maintain the existing airport development subsidy programs for a period not to exceed 5 years and that a complete review, taking into account the role of the federal government, be undertaken prior to that time.
- 6.1 That the grants to municipal library boards be eliminated.
- 6.2 That immediate steps be taken to re-assign the responsibility for library services from municipal library boards to municipalities.
- 6.3 That grants for Programs of Recreation (Reg. 200) be eliminated.
- 6.4 That the Community Recreation Centres Capital Grant program be

eliminated and any outstanding commitments be honoured until March 31, 1981.

- 6.5 *That the Grants to Elderly Persons' Centres be eliminated and any outstanding capital commitments be honoured until March 31, 1981.*
- 6.6 *That Grants to museums owned by municipalities or municipal agencies be eliminated.*
- 6.7 *That the Ministry continue its support role to museums in the form of advisory, technical and coordinating services.*
- 6.8 *That the Ministry consider special financial assistance to municipal museums only where the Province wants to promote certain specific creative activities.*
- 6.9 *That The Parks Assistance Act be repealed and outstanding commitments be honoured until March 31, 1981.*
- 7.1 *That the Province pay the full costs of financing health services administered by local governments subject to approved annual levels of expenditure based on Provincial standards.*
- 7.2 *That, once a coordinated system is achieved, the responsibility for community-oriented health services should be decentralized.*

- 7.3 *That Boards of Health as special purpose bodies be eliminated and the function become a direct responsibility of upper-tier councils.*
- 8.1 *That municipalities be relieved of financial and administrative responsibility for employable persons, and that this responsibility be transferred to the federal government to be fully integrated with the unemployment insurance and manpower programs.*
- 8.2 *That the Province rationalize financial and/or administrative responsibility for the remainder of the GWA caseload (unemployable persons).*

Alternatively:

- 8.3 *That the Province rationalize its current support for all program components under The General Welfare Assistance Act and adopt a 50 per cent reimbursement rate on expenditures net of federal contributions.*
- 8.4 *That the health-oriented services under the homemakers' and nurses' services program be consolidated into the Ministry of Health's Home Care Program.*
- 8.5 *That the Province re-examine its structural and funding approaches with respect to all residential care for the aged with a view*

to consistency with related programs. And that particular attention be paid to the appropriateness of the municipal role in providing extended care.

8.6 *That local Children's Services Committees be a direct responsibility of municipal government and that, in the case of a two-tier system of government, children's services be the responsibility of the upper tier.*

8.7 *That, when these committees are created, the present grants to Children's Aid Societies be eliminated.*

8.8 *That, pending the development of federal-provincial block funding, the Province subsidize children's services at 50 per cent of the costs net of federal contributions.*

8.9 *That the Ministry immediately undertake a thorough study of the day nurseries program to analyse the impact of rapid expansion, the utilization of existing nurseries, the need for further growth, the cost per place and their major components, and variations in costs among day nurseries.*

8.10 *That capital grants to municipalities for day care centres be suspended pending this review.*

8.11 *That the Ministry immediately rationalize existing social*

services programs through the standardization of such critical grant features as grant rates, needs or income testing and claim procedures.

- 8.12 That the Ministry develop effective and appropriate service standards for all social services programs.
- 8.13 That the Ontario Government negotiate with the federal government on unconditional financing arrangement to replace The Canada Assistance Plan along the lines of the established programs financing arrangement for health and post-secondary education.
- 8.14 That once this unconditional financing arrangement is established, the Province follow up by replacing existing Provincial-municipal conditional social services funding with unconditional financing.
- 9.1 That the Housing Policy Study Grants be eliminated.
- 9.2 That the Community Planning Study Grants be eliminated.
- 9.3 That the Ontario Home Renewal Program be re-designed as a shared Provincial-municipal funding arrangement.
- 9.4 That the Neighbourhood Improvement Program be terminated at the conclusion of the current federal-Provincial agreement.

- 9.5 *That the Downtown Revitalization Program be reviewed in 1980 with a view to elimination.*
- 9.6 *That in the interim the scheme for Provincial loan recovery be simplified.*
- 9.7 *That the municipal participation in subsidized housing be eliminated.*
- 9.8 *That the MOE program to reimburse homeowners for costs of termite control be eliminated.*
- 9.9 *That all municipalities assess the need for enforcement of by-laws to control termites, wherever appropriate, in consultation with the Ministry.*
- 10.1 *That free O.P.P. policing be discontinued and municipalities policed by the O.P.P. be charged for the cost of this service.*
- 10.2 *That the policing per capita grant be eliminated.*
- 10.3 *That if the Province desires the establishment of regional police forces, it do so by legislation rather than through the grant system.*
- 10.4 *That the per capita density grant be eliminated.*

- 10.5 *That a uniform per capita grant be paid to all municipalities with the exception that within a region, restructured county or county, the per capita amount is to be divided between an upper-tier municipality and its lower-tier municipalities in the same proportion that the prior year's total upper-tier levy bears to the prior year's municipal levies of all lower-tier municipalities combined.*
- 10.6 *That the per capita grant paid to an upper-tier municipality be treated as general revenue.*
- 10.7 *That, should any grants be eliminated and replaced by levy-based grants, the prior-year value of these grants be added to the prior-year levy for grant purposes.*
- 10.8 *That increases and decreases in surpluses be ignored in calculating the local levy for purposes of levy-based grants.*
- 10.9 *That the local levy for purposes of levy-based grants be re-defined to include all user charges for water and sewerage.*
- 10.10 *That payment of the general support grant in respect of special purpose requisitions be made at the upper-tier level and that the grant benefits be apportioned in the same manner as, and be applied against, these special requisitions.*

- 10.11 *That, where a function is split between upper and lower tier, the payment of the general support grant be made to each tier in respect of its activity.*
- 10.12 *That the continuing increase in rates for the Northern Ontario special support grant be resisted and consideration be given instead to a higher maximum rate for the resource equalization grant.*
- 10.13 *That consideration be given to the reinstatement of the 1975 boundaries and a buffer zone at one-half of the northern rate for the Northern Ontario special support grant.*
- 10.14 *That the Province move quickly to property tax reform and the use of universal market value assessment, thereby strengthening the foundation of the resource equalization grant.*
- 10.15 *That the resource equalization grant be restructured into a grant payable to both the upper and lower tier of municipal government, using the provincial average as standard in both cases.*
- 10.16 *That the Province review all procedures pertaining to the population census and household count with a view to achieving greater accuracy in recognition of their significance for grant calculations.*

- 10.17 That, for purposes of the resource equalization grant, subsequent to or in conjunction with market value assessment on a province-wide basis, the partial recognition of assessment deficiencies at 60 per cent and the 25 per cent rate ceiling be reconsidered.
- 11.1 That assistance under The Drainage Act be retained.
- 11.2 That the grants made under the Agricultural Drainage program be retained.
- 11.3 That the Flood Control program be eliminated and the activities under it be carried out by the conservation authorities.
- 11.4 That Provincial support for Flood Control activities be the same as that in recommendations 4.12, 4.13 and 4.14.
- 11.5 That Crown Contributions for Judge's Plans be eliminated.
- 11.6 That the derelict motor vehicles program be eliminated.
- 11.7 That the St. Clair Parkway Commission be eliminated and its activities be transferred to the appropriate conservation authorities.
- 11.8 That the regional priorities program be reviewed following decisions on the recommendations of this Report and be revised to apply only to specific initiatives that can not be accommodated

by unconditional or conditional grants to municipalities or through direct Provincial expenditures under other programs.

11.9 *That the Townsite Development Program be integrated with the regional priorities program.*

11.10 *That the Disaster Relief Program be retained.*

11.11 *That grants under the Special Emergency Assistance Program and grants under the Loss of Revenue Program that are related to unpredictable events be eliminated through consolidation in the Disaster Relief Program.*

11.12 *That the grants for loss of revenue due to changes in legislation be eliminated and incorporated as transitional adjustments in the specific legislation.*

11.13 *That the Provincial assistance for Municipal Language Training and Translation be retained and the program be reviewed after five years.*

12.1 *That the Province in cooperation with the municipalities ensure that appropriate information systems are developed for municipal programs to provide an indication of the level of service provided and the cost of providing it.*

- 12.2 *That the Province develop simple and consistent grant administration policies and procedures.*
- 12.3 *That the Province coordinate the development of audit practices consistent with Recommendation 12.2.*
- 12.4 *That in establishing grant regulations the Province avoid the development of duplicate financial systems.*
- 12.5 *That for grants where the municipal entitlement is pre-determined, payments be made according to a regular schedule announced in advance.*
- 12.6 *That in the case of grants towards one-time projects, payments be made "on account" based upon claim forms submitted by the municipality.*

